

**SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
LATE PAYMENT OF INVOICE	7
CASH AND INVESTMENTS REPORTING PACKAGE	7
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 17, 2015

The Honorable Nikki R. Haley, Governor
and
Members of the Board
South Carolina Department of Health
and Environmental Control
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Health and Environmental Control (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected twenty-five selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected twenty-five selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$43,300 – general fund, \$691,900 – earmarked fund, \$212,500 – restricted fund, and \$946,400 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. Non-Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$507,600 – general fund, \$665,000 – earmarked fund, \$194,000 – restricted fund, and \$943,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Late Payment of Invoice in the Accountant's Comments section of this report.

3. Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected payroll transactions for twenty-five selected new employees and twenty-five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated, and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$507,600 – general fund, \$665,000 – earmarked fund, \$194,000 – restricted fund, and \$943,900 – federal fund) and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected twenty-five selected recorded journal entries, operating transfers, and two appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected twelve selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

Cash Receipts and Revenues

- We inspected twenty-five selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected twenty-five selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

Non-Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records

Our finding as a result of these procedures is presented in Cash and Investments Reporting Package in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

Our finding as a result of these procedures is presented in Cash and Investments Reporting Package in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Board
South Carolina Department of Health
and Environmental Control
July 17, 2015

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the Department of Health and Environmental Control and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

LATE PAYMENT OF INVOICE

During our testing of disbursement transactions, we noted that the Department failed to pay an invoice within thirty work days of receipt of the invoice and goods. The Bureau of Financial Management (BFM) received the invoice in November 2013, but the receipt of goods was not input to the accounting system until February 2014. Therefore, the payment could not be processed by BFM until February after the invoice, purchase order, and receipt of goods were properly matched.

South Carolina Consolidated Procurement Code, Section 11-35-45 states that “all vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General’s Office within 30 work days from the acceptance of the goods or services and proper invoice.”

We recommend the Department establish and monitor controls to ensure compliance with the South Carolina Consolidated Procurement Code.

CASH AND INVESTMENTS REPORTING PACKAGE

During our testing of the Cash and Investments Reporting Package, we noted that the Department reported the NBSC Investment Services Repurchase Agreement balance as an investment on the “Investments in Marketable Securities Reporting Form”. Since a repurchase agreement can be withdrawn at any time it should be recorded as cash on the “Deposits with Banks Reporting Form.” The Department considered the repurchase agreement an investment account because it is utilized to invest and earn interest on a short term basis.

The Comptroller General’s Policies and Procedures state that “each agency’s executive director and finance director are responsible for submitting to the Comptroller General’s Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely.”

We recommend the Department follow the policies and procedures established by the Comptroller General's Office to ensure that the appropriate reporting packages are completed properly using the provided instructions.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department of Health and Environmental Control for the fiscal year ended June 30, 2013, and dated June 4, 2014. We determined that the Department has taken adequate corrective action on each of the findings except for Cash and Investments Reporting Package.

MANAGEMENT'S RESPONSE



Catherine E. Heigel, Director

Promoting and protecting the health of the public and the environment

September 4, 2015

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
S.C. State Auditor's Office
1401 Main Street, Suite 1200
Columbia, S. C. 29201

Dear Mr. Gilbert:

The South Carolina Department of Health and Environmental Control (DHEC) has received a draft of the FY 14 Agreed Upon Procedures Review and offers the following response to the Accountants' Comments:

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

LATE PAYMENT OF INVOICE

Condition: DHEC failed to pay an invoice within thirty work days of invoice and goods receipt. The invoice was received in November of 2013 but the Goods Receipt and invoice payment did not occur until February of 2014.

Response: DHEC concurs with this finding and has reminded agency personnel of the importance of posting the Goods Receipt to SCEIS so the invoice can be paid timely.

CASH AND INVESTMENTS REPORTING PACKAGE

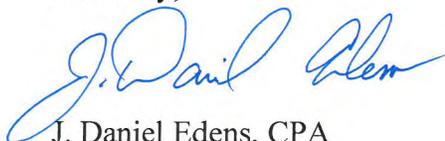
Condition: The NBSC Investment Services Repurchase agreement was incorrectly reported as an Investment and the proper classification for financial reporting purposes was "Cash" on the Deposits with Banks Reporting Form.

Response: DHEC concurs with this finding and corrected the presentation on the FY 15 Cash and Investments Reporting Package. The Bureau of Financial Management staff responsible for preparation of the Cash and Investments Reporting Package has received additional training in the proper preparation of this Reporting package.

Mr. Richard H. Gilbert, Jr., CPA
Page Two

I appreciate the opportunity to respond and the cooperation of State Auditor's Office staff during this engagement. Please give me a call if you have any further questions.

Sincerely,



J. Daniel Edens, CPA
Director, Bureau of Financial Management

JDE

cc: Catherine E. Heigel
Kevin Guion
Ronnie Belleggia
BFM Division Directors

4 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$5.96. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.