INDEPENDENT ACCOUNTANTS’ REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES

June 30, 2013
February 21, 2014

The Honorable Nikki R. Haley, Governor
and
Mr. Anthony E. Keck, Director
South Carolina Department of Health and Human Services
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Health and Human Services for the fiscal year ended June 30, 2013, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/trb
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June 30, 2013

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February 21, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina Department of Health and Human Services (the “Department”), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2013, 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 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department’s policies and procedures and State regulations.
   - We inspected 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 earmarked, restricted, and federal funds to ensure that revenue was classified properly in the Department’s accounting records. The scope was based on agreed upon materiality levels ($1,500,000 - earmarked fund, $1,700,000 – restricted fund, and $14,000,000 – federal fund) and ±10 percent.

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The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Retention Policy in the Accountant’s Comments section of this report.

2. Non-Payroll Disbursements and Expenditures
   - We inspected selected recorded non-payroll disbursements, including Medicaid payments, to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department’s policies and procedures and State regulations, were bona fide disbursements of the South Carolina Department of Health and Human Services, 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 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 Department’s accounting records. The scope was based on agreed upon materiality levels ($3,600,000 – general fund, $1,200,000 – earmarked fund, $1,700,000 – restricted fund, and $15,000,000 – federal fund) and ±10 percent.

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

3. Payroll Disbursements and Expenditures
   - We inspected 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; payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department’s policies and procedures and State regulations.
   - We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department’s policies and procedures, that the employee’s first and/or last paycheck 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 Department’s accounting records. The scope was based on agreed upon materiality levels ($3,600,000 – general fund, $1,200,000 – earmarked fund, $1,700,000 – restricted fund, and $15,000,000 - 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 Department’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 selected recorded journal entries, operating transfers, and 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 Department’s policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures is presented in Appropriation Transfers in the Accountant’s Comments section of this report.

5. General Ledger and Subsidiary Ledgers
   • We inspected selected entries and weekly totals in the subsidiary records of South Carolina Department of Health and Human Services to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected weekly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Department’s policies and procedures and State regulations.

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

6. Composite Reservoir Accounts

   Reconciliations
   • We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013, and inspected 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 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 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 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 good and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen randomly. The cash receipts and disbursement transactions were selected randomly. Our finding as a result of these procedures is presented in the Reconciliations of Composite Reservoir Account in the Accountants’ Comments section of this report.

7. 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 Department specific provisos.

We found no exceptions as a result of the procedures.

8. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, prepared by South Carolina Department of Health and Human Services and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General’s GAAP Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in the Reporting Packages in the Accountant’s Comments section of this report.

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, prepared by South Carolina Department of Health and Human Services 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.

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, the South Carolina Office of the State Auditor and the management of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, PA
Columbia, South Carolina
ACCOUNTANTS' 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.
REVENUE RETENTION POLICY

In performing procedures over the revenue retention policy we noted the Department did not comply with Section 21.25 of the FY 2012 – 13 Appropriation Act.

Section 21.25 of FY 2012 – 13 Appropriation Act authorizes the Department to carry forward cash balances from the prior fiscal year into the current fiscal year for restricted funds. The proviso requires the Department to submit a comprehensive report of all cash balances brought forward from the prior fiscal year to the President Pro Tempore of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee within fifteen days after the Comptroller General closes the fiscal year.

The Department prepared and submitted the comprehensive report to the required individuals but not within the required fifteen days after the Comptroller General closed the fiscal year. We recommend the Department development and implement procedures to ensure timely reporting in accordance with applicable State law.

APPROPRIATIONS TRANSFERS

In performing procedures over appropriation transfers we inspected twenty-five transfers. The Department could not provide supporting documentation for twenty of the twenty-five appropriation transfers inspected.

Section 89.9 of the FY 2012 – 13 Appropriation Act authorizes agencies to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and Comptroller General as long as the transfer does not exceed twenty percent of the program budget. Upon request, details of such transfer may be provided to members of the General Assembly.

Because the Department could not provide supporting documentation we could not determine if the Department had made proper notification as required by Section 89.9 of the Appropriation Act.

We recommend the Department implement procedures that require supporting documentation be retained for all appropriations transfers, including documenting required notifications of such transfers in order to be in compliance with Section 89.9 of the South Carolina laws.
REPORTING PACKAGES

In our review of the 2013 capital assets reporting package, we noted several capital assets were improperly recorded. In our testing we determined the Department overstated its capital additions by approximately two hundred and fifty thousand dollars. The capital assets were recorded at the quoted price, however, the actual costs of the assets were less than the quoted price and the Department did not adjust the cost of the asset.

The requirements and instructions for recording of capital assets in the reporting packages are included in the Reporting Policies and Procedures Manual. Section 8 of the manual states an agency should “use actual historical cost records to establish book values for capital assets.”

We recommend the Department ensure that personnel responsible for completing and approving the reporting packages are knowledgeable of the reporting package requirements and complete the reporting package in accordance with instructions.
SECTION B – OTHER WEAKNESS

The conditions described in this section have been identified while performing agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.
RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNTS

We reviewed the reconciliations at year end and one other month during the year of the Department’s composite reservoir accounts. During our review of these reconciliations, we noted that two of the account reconciliations were not reviewed and approved by management nor were the reconciliations dated to determine if the reconciliation was prepared in a timely manner. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is signed and dated by the preparer and management provides evidence that the reconciliation was timely prepared and independently reviewed and approved and provides evidence of the existence of an internal control that is designed to detect errors.

We recommend the Department implement procedures to require an independent review and approval of reconciliations as well as requiring both the preparer and the reviewer to sign and date the reconciliations.

APPROPRIATION TRANSFERS

In reviewing the selected appropriations transfers we noted that nine out of the twenty-five transfers were not approved by someone other than the preparer. The sixteen that were approved by someone other than the preparer required approval by the Budget and Control Office before the transfer could be processed. A sound system of internal control includes policies and procedures to ensure that errors are detected by a process of review and approval by someone other than the preparer.

We recommend the Department implement procedures to require review and approval of all appropriations transfers by someone other than the individual initiating the transfer.
MANAGEMENT'S RESPONSE

Attachment A
February 21, 2014

The Hobbs Group, P.A.
1704 Laurel Street
Columbia, South Carolina 29201

We have reviewed the audit findings for the Fiscal Year 2013 Agreed-Upon Procedures Audit for the South Carolina Department of Health & Human Services (DHHS), and offer the following response(s) for your consideration:

**Section A – Violations of State Laws, Rules or Regulations**

**REVENUE RETENTION POLICY**

**Recommendation:** The Department prepared and submitted the comprehensive report to the required Individuals, but not within the required fifteen days after the Comptroller General closed the fiscal year. We recommend the Department development and implement procedures to ensure timely reporting in accordance with applicable State law.

**Response:** DHHS concurs with this recommendation. DHHS acknowledges that there was a delay of 25 days. Procedures have been enhanced to prevent future delays including a tracking document that lists related provisos with respective due dates for all required reports. Calendar entries have also been created to serve as reminders to the responsible agency staff to generate these reports within the established time frames upon notification of year end closing by the Comptroller General.

**APPROPRIATIONS TRANSFERS**

**Recommendation:** We recommend the Department implement procedures that require supporting documentation be retained for all appropriations transfers, including documenting required notifications of such transfers in order to be in compliance with Section 117.9 of the South Carolina Statutes.

**Response:** DHHS concurs with this recommendation. Procedures have been developed and are currently being used to ensure adequate and sufficient documentation to support appropriation transfers.
REPORTING PACKAGES

**Recommendation:** We recommend the Department ensure that personnel responsible for completing and approving the reporting packages are knowledgeable of the reporting package requirements and complete the reporting package in accordance with instructions.

**Response:** DHHS concurs with the recommendation. DHHS acknowledges that quoted price was recorded rather than actual price. Procedures have been enhanced to ensure responsible staff is knowledgeable of asset valuation methods and reporting package requirements.

**Section B – Other Weakness**

RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNTS

**Recommendation:** We recommend the Department implement procedures to require an independent review and approval of reconciliations as well as requiring both the preparer and the reviewer to sign and date the reconciliations.

**Response:** DHHS concurs with this recommendation. Procedures have been enhanced to incorporate a preparer's and approver's signature on all reconciliation documents.

APPROPRIATION TRANSFERS

**Recommendation:** We recommend the Department implement procedures to require review and approval of all appropriations transfers by someone other than the individual initiating the transfer.

**Response:** DHHS concurs with this recommendation. Procedures have been developed and are currently being used to ensure adequate approval processes for appropriation transfers.

Sincerely,

Ms. Beth Hutto  
Interim Deputy Director, CFO