

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES*

June 30, 2017



February 21, 2018

Mr. Joshua Baker, 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, 2017, was issued by The Hobbs Group, PA, 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,

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

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June 30, 2017

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

February 21, 2018

Mr. George L. Kennedy, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described in Attachment I, which were agreed to by the South Carolina Office of the State Auditor ("OSA") and management of the South Carolina Department of Health and Human Services (the "*Department*"), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors. 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 in Attachment I for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 Independent Accountants' Report on Applying Agreed-Up on Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

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. However, this report is a matter of public record and its distribution is not limited.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

Agreed-Upon Procedures Related to South Carolina Department of Health and Human Services
For the Year Ended June 30, 2017

Cash Receipts/Revenues

1. We compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We obtained and documented an understanding of variations over \$10,010 – general fund, \$9,310,000 – earmarked fund, \$5,810,000 – restricted fund, and \$69,300,000 – federal fund and ± 10 percent.
2. We haphazardly selected 40 cash receipts transactions and inspected supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. We haphazardly selected 5 cash receipts and inspected supporting documentation to determine that receipts were recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-payroll Expenditures

4. We compared current year non-payroll expenditures at the subfund and account level to those of the prior year. We obtained and documented an understanding of variations over \$5,800,000 – general fund, \$1,800,000 – earmarked fund, \$2,100,000 – restricted fund, and \$22,700,000 – federal fund and ± 10 percent.
5. We haphazardly selected 25 non-payroll disbursements and inspected supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoices agree with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with all applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / verify proper sales/use tax.
 - For federally funded cash disbursements/non-payroll expenditures we inspected supporting documentation to determine that charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

6. We haphazardly selected 5 non-payroll disbursements and inspected supporting documentation to determine that disbursements were recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. We compared current year payroll expenditures at the subfund and account level to those of the prior year. We obtained an understanding of variations over \$5,800,000 – general fund, \$1,800,000 – earmarked fund, \$2,100,000 – restricted fund, and \$22,700,000 – federal fund and ± 10 percent.
8. We haphazardly selected 25 employees and inspected supporting documentation during the fiscal year to:
For Salaried Employees:
 - We obtained and scanned the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the department.
 - We agreed gross pay to supporting documentation noting all changes to gross salary for the year. We determined that all changes have been properly approved.For Hourly Employees:
 - We obtained and scanned the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the department.
 - We confirmed the hourly rate and time sheets are properly approved; recalculate gross pay.
9. We haphazardly selected 14 bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually
 - Bonuses received during the year did not exceed \$3,000
 - Transaction was appropriately documented and approved
10. We haphazardly selected 17 employees hired during the fiscal year to determine if they were added to the payroll in accordance with the agency's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. We haphazardly selected 20 employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the agency's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
12. We compared the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions between current year and prior year. We obtained an explanation of changes of ± 10 percent.
13. We computed the percentage distribution of fringe benefit expenditures by fund source and compared it to the actual distribution of recorded personal service expenditures by fund source. We investigated differences of ± 10 percent to ensure that personal service expenditures were classified properly in the agency's accounting records.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

14. We haphazardly selected 25 non-recurring journal entries and 25 transfers for the fiscal year and:
- Traced postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirmed transaction is properly approved.
 - Inspected supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures performed.

Appropriation Act

15. We inspected the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. We obtained agency-specific state provisos and inspected for compliance through inquiry and observation.

We found no exceptions as a result of the procedures performed.

Reporting Packages

17. We obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. We inspected the reporting packages to:
- Determine if preparation was in accordance with Comptroller General Office requirements (<http://www.cg.sc.gov/guidanceandformsforstateagencies>)
 - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records

The following reporting packages were inspected:

Master Reporting Checklist
Cash and Investments
Grants and Contributions
Loan Receivables
Other Receivables
Capital Assets
Operating Leases
Accounts Payable
Interfund Payables
Litigation
Subsequent Events
Fund Balance

Our findings as a result of the procedures are presented in Grants and Contributions Reporting Package in the Findings section of the report.

Composite Reservoir Accounts

18. We obtained from the OSA a listing of agency composite reservoir accounts and confirmed with Department management that the listing is complete.
19. We obtained fiscal year monthly reconciliations for each composite reservoir account and for 6 of the reconciliations, we performed the following procedures:
 - Determined the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct
 - Agreed applicable amounts from reconciliations to the general ledger
 - Agreed applicable amounts from reconciliations to the State Treasurer's Office monthly reports
 - Determined if reconciling differences were adequately explained and properly resolved
 - Determined if necessary adjusting entries were made in the accounting records
 - Obtained a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determined mathematical accuracy
 - Agreed the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger
20. We randomly inspected 15 composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations and that they were recorded in the proper fiscal year.
21. We determined revenue collection and retention or remittance is supported by law.
22. We randomly inspected 45 composite reservoir account 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 agency, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures performed.

Internal Audit Reports

23. We haphazardly selected 5 of the Department's internal audit reports to inspect beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no exceptions as a result of the procedures performed.

FINDINGS

GRANTS AND CONTRIBUTIONS REPORTING PACKAGE

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "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, prepared in accordance with instructions, complete and timely." We inspected the Department's fiscal year 2016-17 reporting packages to determine if the reporting packages were complete, accurate, submitted timely and prepared in accordance with instructions.

The beginning balance listed on the Grants Activity Form of the Grants and Contributions Reporting Package did not agree to the ending balance on the Grants Activity Form of the Grants and Contributions Reporting Package from the prior year. Instead, the beginning balance agreed to the June 30, 2016 ending accrual fund balance. As a result, the 'Grants Receipts through June 30' column and the 'Grant Qualified Payments' column were both overstated and understated by the prior year accrual amount. In total, eight grants were affected. The beginning balance reported in the Grants and Contributions Reporting Package was understated by \$247,180,254 and the current year activity was overstated by \$247,180,254. Ending balances were in agreement with the general ledger ending cash fund balances.

MANAGEMENT'S RESPONSE

Henry McMaster GOVERNOR
Joshua D. Baker DIRECTOR
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February 26, 2018

The Hobbs Group, P.A.
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We have reviewed the audit findings for the Fiscal Year 2017 Agreed-Upon Procedures Audit for the South Carolina Department of Health & Human Services (DHHS), and offer the following response for your consideration:

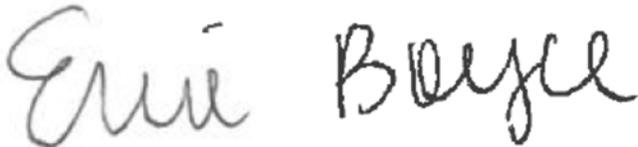
Section A – Violations of State Laws, Rules or Regulations

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 the accrual basis beginning balance was included instead of the cash basis beginning balance. Agency staff who prepare and approve the Grant Contribution Revenue Reporting Package will review all requirements and verify that the appropriate balances are reported.

Sincerely,



Erin Boyce, CPA
Deputy Director for Finance & CFO