

South Carolina Department of Health and Environmental Control

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2011*

*State of South Carolina*



*Office of the State Auditor*

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June 26, 2012

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

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Health and Environmental Control for the fiscal year ended June 30, 2011, was issued by Scott and Company, L.L.P, Certified Public Accountant, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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

RHGjr/trb

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## Independent Accountants' Report on Applying Agreed-Upon Procedures

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Mr. Richard H. Gilbert, Jr., Deputy State Auditor  
State of South Carolina  
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") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2011, 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 25 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 10 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 remittances 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 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 (\$230,000 – general fund, \$320,000 – earmarked fund, \$40,000 – restricted fund and \$440,000 – federal fund) and +/- 10 percent.

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

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

## **2. Non-Payroll Disbursements and Expenditures**

- We inspected 25 recorded non-payroll disbursements to determine if these disbursements were 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 Department, were paid in conformity with State laws and regulations, and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 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, 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 (\$230,000 – general fund, \$320,000 – earmarked fund, \$40,000 – restricted fund and \$440,000 – federal fund) and +/- 10 percent.

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

## **3. Payroll Disbursements and Expenditures**

- We inspected 25 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 that payroll transactions, including employee payroll deductions, 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 5 new employees and 5 individuals 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 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, 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 (\$230,000 – general fund, \$320,000 – earmarked fund, \$40,000 – restricted fund and \$440,000 – 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 +/- 5 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

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

- We inspected 10 recorded journal entries, 5 operating transfers, and 5 appropriation transfers to determine if these transactions were properly described and classified in the accounting records, that they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved when necessary, the transactions 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. We found no exceptions as a result of the procedures.

#### **5. Composite Reservoir Accounts**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2011, 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 journal entries were made in the Department's accounting records.
- 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 obtained all monthly reconciliations prepared by the Department.
- 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 Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations, and 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.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in the Composite Reservoir Account Reconciliations in the Accountant's Comments section of this report.

#### **6. Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department 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.

#### **7. Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, prepared by the Department and submitted to the State Comptroller General. We inspected the closing packages to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

#### **8. Schedule of Federal Financial Assistance**

- We obtained a copy of the Schedule of Federal Financial Assistance for the year ended June 30, 2011, 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 and if the amounts agreed with the supporting work papers 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 Accountants' Comments section of the State Auditor's Report on the Department resulting from the engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2008, 2009, and 2010.

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

*Scott and Company LLP*

Columbia, South Carolina  
June 28, 2012

**ACCOUNTANT'S COMMENTS**

**SECTION A – OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State laws, rules or regulations.

## **COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS**

### **Condition:**

During our review of the cash and investments closing package, we noted that the Department had not been reconciling its composite reservoir bank accounts to the State Treasurer's reports on a monthly basis. We determined that monthly reconciliations are not being performed on the (1) NBSC – WIC, (2) NBSC – WIC, Farmers Market or (3) Synovus composite reservoir accounts.

### **Cause:**

Based upon our discussions with management, these reconciliations were not performed during the fiscal year ended June 30, 2011, due to an increase in workload as a result of the SCEIS implementation. This increase in workload contributed to an employee not performing these reconciliations.

### **Effect:**

Because of the failure to perform these reconciliations, there is an increased risk that the Department will fail to detect and correct timely any errors in the balances of the composite reservoir accounts.

### **Criteria:**

An effective internal control system includes procedures designed to timely detect and correct errors.

### **Recommendation:**

We recommend the Department develop and implement procedures to ensure that reconciliations are performed monthly on its composite reservoir bank accounts. The procedures should require documented reconciliations, signed and dated by the preparer and reviewer, performed timely after month-end and include identification and explanation of reconciling differences.

## **SECTION B – STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountants' Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2007, and dated April 18, 2008. We applied no procedures to the Department's accounting records and internal controls for the fiscal years ended June 30, 2008, 2009, and 2010. We determined that the Department has taken adequate corrective action on each of the findings.



Catherine B. Templeton, Director

*Promoting and protecting the health of the public and the environment*

June 28, 2012

Mr. Richard H. Gilbert Jr., CPA  
Interim State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

We have reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the South Carolina Department of Health and Environmental Control for the fiscal year ended June 30, 2011. The agency agrees with the auditor's comments and will implement recommendations made in the report.

I am authorizing the release of the report.

Sincerely,

Catherine B. Templeton  
Director