

**SOUTH CAROLINA DEPARTMENT OF  
HEALTH AND HUMAN SERVICES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2019**



## Independent Accountant's Report on Applying Agreed-Upon Procedures

January 22, 2020

Mr. Joshua D. Baker, Director  
South Carolina Department of Health and Human Services  
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Health and Human Services (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 1 either for the purpose for which the agreed-upon procedures 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 an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express 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 State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of 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.

George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor  
Agreed-Upon Procedures Related to the South Carolina Department of Health and Human Services (J02)**

**Cash Receipts/Revenues**

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following: General Fund: General Ledger (G/L) Account 4280020000; Earmarked Fund: G/L Account 4520010035 (for fund 31880000) and G/L Account 4310040001 (for fund 34410000); and Federal Fund: G/L Account 4520010011 (for fund 57640000) and G/L Account 4890040000 (for fund 57640000).

**Finding**

Indirect cost recoveries of \$722,165 related to the Statewide Cost Allocation Plan were recorded in G/L Account 4280020000 (Fed Oper Grant – Rest) instead of G/L Account 4300040000 (IDC Recovery Account). A similar finding was observed in the 2018 State Auditor’s Report.

**Management’s Response**

The Department has historically recorded the statewide indirect cost recoveries in G/L account 4280020000. However, after the finding in FY2017-2018 management’s corrective action plan was to record the entry in G/L account 4300040000 beginning in FY2018-2019. Unfortunately, due to turnover and the lack of communication with all levels of the financial management team the entry was inadvertently processed incorrectly again.

**Corrective Action**

There will be communication of the indirect cost recoveries G/L account finding with all levels of management in Finance. Additionally, notes will be added to the prior year’s documentation of the corrected G/L 4300040000 to ensure the correct entry is made.

**Purchasing Card Transactions**

2. Haphazardly select ten purchasing card transactions that occurred between February 2019 and June 2019 from the Office of the Comptroller General’s (CG) listing of purchasing card transactions for fiscal year 2019 and inspect supporting documentation to determine:
  - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
  - The purchase is authorized based on the cardholder’s job title/position.
  - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
  - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of this procedure.

**Payroll**

3. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.

## **Payroll (Continued)**

4. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
5. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department'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.
6. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
7. Haphazardly select three bonus pay disbursements to determine:
  - The employee does not make more than \$100,000 annually.
  - The bonuses received during the year did not exceed \$3,000.
  - The payment agreed to supporting documentation.
  - The payment was approved by the appropriate supervisor.

We found no exceptions as a result of these procedures.

## **Journal Entries and Transfers**

8. Haphazardly select ten journal entries and transfers for the fiscal year to:
  - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
  - Confirm the transaction is properly approved.
  - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of this procedure.

## **Reporting Packages**

9. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
10. In addition to the procedure above, perform the following:
  - Operating Leases Reporting Package

Determine if amounts agree to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Ten haphazardly selected contingent rental payments; (2) The current expense and future minimum payments for ten haphazardly selected operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time/Unusual Rental Payments and Other Detailed Rental Charges).

In addition, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's reporting package instructions.

## Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select three payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

## Findings

**Operating Leases Reporting Package** – We were unable to agree the amounts reported for One Time Rentals and Month to Month Rentals on the Operating Leases Summary Form – Lessee (Form 3.09.1) to supporting schedules provided by the Department.

Five reported base charges coded to G/L Account 5040027000 (IT – Rent Copying Equipment), totaling \$6,299, were improperly reported as Contingent Rentals on Form 3.09.1. As a result, Contingent Rentals were overstated by \$6,299.

An extension for one lease was excluded from the future minimum lease payments reported on the Operating Leases Future Minimum Payment Schedule (Form 3.09.1a). As a result, future minimum lease payments were understated by \$243,585.

Similar findings were observed in the 2018 State Auditor’s Report.

## Management’s Response

We concur with the above findings related to the Operating Leases reporting package.

## Corrective Action

The Department will conduct additional training to be able to more accurately classify expenditures. The Department will also implement another level of review to catch any future minimum payments that may have been missed.

## Composite Reservoir Accounts

11. Obtain a listing of composite reservoir accounts and confirm with Department management that the listing is complete.
12. Obtain fiscal year monthly reconciliations for each composite reservoir account and for two haphazardly selected reconciliations for each account, perform the following procedures:
  - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
  - Agree applicable amounts from reconciliations to the general ledger.
  - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
  - Determine if reconciling differences were adequately explained and properly resolved.
  - Determine if necessary adjusting entries were made in the accounting records.
13. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department’s policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

## **Composite Reservoir Accounts (Continued)**

14. Haphazardly select and inspect five composite reservoir account 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 that goods and/or services were procured in accordance with applicable laws and regulations.
15. Confirm that the Department submitted the required Bank Account Transparency and Accountability report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.83 of the fiscal year 2019 Appropriation Act.

We found no exceptions as a result of these procedures.

## **Appropriation Act**

16. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the fiscal year 2019 Appropriation Act.
17. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

## **Assets and Personal Property**

18. Select three capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
19. Confirm that an inventory of the Department's personal property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws 10-1-140.

## **Finding**

Two assets were capitalized for the incorrect amount due to the exclusion of sales tax and/or component and installation charges. These assets were understated by an aggregate total of \$17,206 in the SCEIS asset system. A similar finding was observed in the 2018 State Auditor's Report.

## **Management's Response**

We concur with the above finding related to assets.

## **Corrective Action**

An email has been sent to procurement staff and to staff who typically order assets stating that all component and installation charges are to be included in the value of the asset.

Additional training will be conducted with shopping cart creators, both in Procurement and Accounts Payable, on sales tax requirements.

## **Legal Services / Attorney Fees**

20. Haphazardly select three transactions from the SCEIS Yearend Reporting - Litigation Expense report coded to the Legal Services G/L Account to determine proper account coding and to confirm the transactions did not relate to attorney payments.
21. Haphazardly select three transactions from the SCEIS Yearend Reporting - Litigation Expense report coded to the Attorney Fees G/L Account to determine that the Department obtained the approval required by South Carolina Code of Laws 1-7-170 and that total firm payments and service date ranges adhere to the approved limits.

## **Finding**

The Department paid attorney fees to one law firm for an attorney who was not listed on the approved South Carolina Attorney General Request for Authorization to Employ Associate Counsel form. Therefore, the Department was not in compliance with South Carolina Code of Laws 1-7-170.

## **Management's Response**

The finding is accurate. The Department paid the law firm for the work of an attorney whose name did not appear on the approved form for that law firm.

## **Corrective Action**

A revised authorization form for this law firm has been submitted to the Attorney General to include any other attorney who may work on Department matters, so the Department should be in compliance moving forward.

## **Status of Prior Findings**

22. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

## **Observations**

Per discussion with management and through inspection and observation, we determined two prior year findings were corrected before the end of fiscal year 2019: (1) Purchasing Card – Transaction Splitting and (2) Subsequent Events Questionnaire – Late Leave Submissions.

We also identified the prior year finding regarding petty cash approval still existed at year-end; however, the Department requested approval from the Office of the State Auditor for its 31 regional petty cash funds in January 2020.

Further, we identified three similar findings related to (1) Revenue Variance Analysis; (2) Operating Leases Reporting Package; and (3) Capital Asset Acquisitions that will be repeated. See findings at **Cash Receipts/Revenues, Reporting Packages, and Assets and Personal Property.**