

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 17, 2020

Mr. W. Marshall Taylor, Jr., Acting Director
and
Members of the Board
South Carolina Department of Health and Environmental Control
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 Environmental Control (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 governing body and management of the South Carolina Department of Health and Environmental Control 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 – South Carolina Department of Health and Environmental Control (J04)**

Cash Receipts/Revenues

1. Compare current year revenues at the fund 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 ledger (G/L) accounts: Earmarked Funds: G/L Account 4890040000 (Miscellaneous Transfer – Other Fund); Restricted Funds: G/L Account 4140210006 (Non-Hazardous Waste Uncontrolled Sites) and 4350020000 (Litigation and Court Cost Recovery).
2. Haphazardly select twenty-five cash receipts transactions (excluding federal drawdowns) and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law and that any fee increases are in accordance with Proviso 117.7 of the fiscal year 2019 Appropriation Act.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

During our comparison of revenue changes between fiscal years we observed the Department posted two reversing entries totaling \$450,290 in fiscal year 2019. Because the entries were made to reverse entries posted in fiscal year 2018 and because the fiscal year had not yet closed, the Department should have posted the correcting entries in fiscal year 2018.

Management's Response

The Department agrees with this finding. At the time the entries were reversed, the employee was unaware that both fiscal years were open and that she could choose which year to post to. Personnel from the South Carolina Enterprise Information System (SCEIS) has provided instructions and screenshots for the employee and manager so that they know how to post to the correct fiscal year in the future.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations for the following G/L accounts: General Funds: 518 – G/L Account series (State Aid Allocations); Earmarked Funds: 504 – G/L Accounts series (Fixed Charges); Restricted Funds and Federal Funds: 517 – G/L Account Series (Allocations).
4. Haphazardly select fifteen non-payroll disbursements (excluding the federal programs HIV Formula Grants (CFDA 93.917), Immunization (CFDA 93.268) and Research and Development Cluster) and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
- Disbursements are recorded in the proper fiscal year.
- Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- 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.

Finding

The Department incorrectly coded expenditures totaling \$7,771 to G/L Account 5111010015 (Medical Service – Individual Office Medical Services). These expenditures should have been coded to G/L Account 5021540000 (Non-IT & Non-Real Estate Other Professional Services). Additionally, the Department incorrectly coded expenditures totaling \$27,220 to G/L Account 5021490000 (Audit Acct Finance), a restricted G/L Account. These expenditures should have been coded to G/L Account 5024990000 (Other Contract Services – Non-IT & Non-Real Estate.)

Management's Response

The Department agrees with this finding. In the first instance, staff was unaware of the correct code to use. In the second instance, a typo was made which resulted in the wrong G/L code being used. In both instances, staff have been notified of the errors and provided with the correct G/L codes to use going forward.

Payroll

5. 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%.
6. 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% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
7. Haphazardly select ten temporary 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.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

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

We found no exceptions as a result of the procedure.

Reporting Packages

9. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were 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:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg -Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Other Receivables Reporting Package

Determine if reported amounts are accurately classified based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records.

- Operating Leases Reporting Package

Confirm the Department submitted copies of all leases to the CG in accordance with the CG's reporting package instructions.

- Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

Determine if responses and amounts are reasonable/accurate based on inspection of invoices and/or contractual agreements.

- 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 five 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.

Finding

Other Receivables Reporting Package – The Department did not report an allowance for uncollectible receivables totaling \$1,116 for fund 28370000 (General Revenue) on the Other Receivables Reporting Package. As a result, Fund Receivable Net Balance was overstated by \$1,116. We observed a similar finding in the 2018 State Auditor's Report.

Management's Response

The Department agrees with the finding. This was an administrative error resulting from (1) The Department's complex processes to compile all the necessary data, and (2) a new Director of Accounts Receivables completing the package for the first time. This finding has been discussed with the Director and she understands to include these balances in the future.

Assets and Personal Property

11. Haphazardly select five 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.
12. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and that the asset was properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
13. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Law 10-1-140.

Finding

The Department did not capitalize installation costs totaling \$3,855 for one asset. As a result, the recorded value of the asset was understated by \$3,855 in SCEIS.

Management's Response

The Department agrees with the finding. Staff was unaware that the installation costs should have been included as a cost of the asset. Program staff and Procurement staff have been notified of the error and understand that such costs should be included in the cost of the asset in the future.

Governance, Risk and Compliance (GRC) SCEIS Module

14. Select one control identified through the SCEIS GRC system that was in place during fiscal year 2019 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedure.

Appropriation Act / Department-Specific Provisos

15. 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.
16. 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.
17. Confirm compliance with five haphazardly selected Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.
18. Through inquiry and inspection, confirm Department compliance with Proviso 118.15 of the fiscal year 2019 Appropriation Act regarding nonrecurring revenue received during the fiscal year.

We found no exceptions as a result of the procedures.

Status of Prior Findings

19. 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.

We determined that the Department has taken adequate corrective action on the findings, except where noted in the Reporting Packages finding above.