

**SOUTH CAROLINA DEPARTMENT OF
LABOR, LICENSING AND REGULATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2009

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
RECEIPTING	7
TRANSACTION CODING	8
COMPENSATED ABSENCES CLOSING PACKAGE	9
SECTION B - STATUS OF PRIOR FINDINGS	10
MANAGEMENT'S RESPONSE	11

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 1, 2010

The Honorable Mark Sanford, Governor
and
Ms. Adrienne R. Youmans, Director
South Carolina Department of Labor, Licensing and Regulation
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Labor, Licensing and Regulation (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2009, 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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$37,100 – general fund, \$171,100 – earmarked fund, and \$22,400 – federal fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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

2. **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 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$24,500 – general fund, \$190,800 – earmarked fund, and \$27,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transaction Coding in the Accountant's Comments section of this report.

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, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.

The Honorable Mark Sanford, Governor
and
Ms. Adrienne R. Youmans, Director
South Carolina Department of Labor, Licensing and Regulation
September 1, 2010

- 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 agency'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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$24,500 – general fund, \$190,800 – earmarked fund, and \$27,600 – 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 agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of our 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 agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transaction Coding in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2009, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 STARS 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 and/or in STARS.

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

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of department personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, prepared by the Department and submitted to the State Comptroller General. We inspected them 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.

Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2009, 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; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Ms. Adrienne R. Youmans, Director
South Carolina Department of Labor, Licensing and Regulation
September 1, 2010

10. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if Agency had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2008.

Our finding as a result of these procedures is presented in Receipting in the Accountant's Comments section of this report.

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 and of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



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

ACCOUNTANT'S 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.

RECEIPTING

Three of twenty-five randomly selected receipts were not deposited in a timely manner as defined by Proviso 89.1 of the 2009 Appropriation Act. The three license fees were deposited one, two, and six months after the receipt date because the licensing paperwork accompanying the receipt was incomplete.

In addition, we found that the Department did not issue a cash receipt for another receipt that we tested. Department personnel explained that the Department had revised its policy pertaining to the acceptance of cash payments. Confusion over the change in policy resulted in Department personnel processing the transaction without issuing a receipt to the payee.

Proviso 89.1 of the 2009 Appropriation Act states, "For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State.

Section 11-1-10 of the 1976 Code of Laws states, "It is unlawful for an officer of this State or his agent, employee, or servant to collect from a person any delinquent taxes, fine, or other money due the county or State without issuing to that person an official receipt showing the number, date, name of person, amount collected, and for what purpose."

We again recommend that the Department review and strengthen its procedures to ensure that receipts are deposited timely in accordance with State law and that Department personnel issue a cash receipt for all cash received by the agency.

TRANSACTION CODING

One of twenty-five disbursement transactions tested in our test of cash disbursements and one transaction tested in our cut-off test were processed using incorrect object codes. Also, all six indirect cost transfers were processed using an incorrect object code.

We determined that the Department recorded a travel reimbursement to a non-state employee using object code 0504, In-State-Automobile Mileage, instead of object code 0232, Non-State Employee Travel. We also determined that the Department recorded the reimbursement of a receipt using object code 7201, Miscellaneous Revenue, instead of object code 1801, Professional and Occupational License Renewal Fee. Finally we determined that the Department recorded the indirect cost transfers using object code 2822, Federal Operating Grants-Restricted, instead of object code 2802, Indirect Costs General Fund.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting Manual (STARS Manual) provide definitions of applicable object codes.

We recommend the Department carefully review the invoices and operating transfers to ensure that revenues and expenditures are charged to the correct object code as defined in the STARS Manual.

COMPENSATED ABSENCES CLOSING PACKAGE

The Comptroller General's GAAP Closing Procedures Manual, Section 1.7, Summary of Agencies Responsibilities states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

Several exceptions were noted while testing the Department's compensated absences closing package. The Department inadvertently excluded its compensatory time liability from the compensated absence balance reported in the closing package. Also, one employee on military leave was excluded from the total leave liability reported. The leave liability report calculates a pay rate of zero when an employee is on leave without pay or military leave, resulting in a zero total liability calculated and reported.

We recommend the Department carefully review instructions to ensure that all closing packages are completed in accordance with GAAP Closing Procedures Manual requirements. Also, the person approving the closing package should verify the information reported.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2007, and dated June 26, 2008. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2008. We determined that the Department has taken adequate corrective action on each of the findings except Untimely Deposit of Receipts. That finding is repeated in our current report under the finding titled Receipting.

MANAGEMENT'S RESPONSE



South Carolina
Department of Labor, Licensing and Regulation



110 Centerview Drive
Post Office Box 11329
Columbia, SC 29211-1329
(803) 896-4300
FAX: (803) 896-4393
www.llr.state.sc.us

Mark Sanford
Governor
Adrienne Riggins Youmans
Director

October 20, 2010

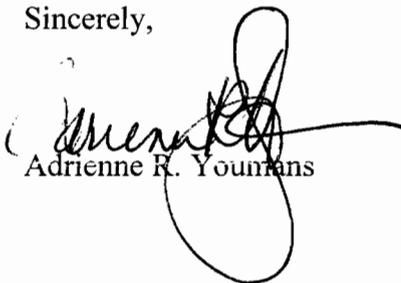
Mr. Richard H. Gilbert Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, S.C. 29201

Dear Mr. Gilbert:

We have reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2009. 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,



Adrienne R. Youmans

4 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$5.96. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.