



Office of the State Auditor

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June 26, 2000

The Honorable James H. Hodges, Governor
and
Ms. Rita M. McKinney, Director
South Carolina Department of Labor, Licensing and Regulation
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 1999, was issued by Scott McElveen, L.L.P., 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,

A handwritten signature in black ink, appearing to read 'Tom Wagner', written over the typed name and title.

Thomas L. Wagner, Jr., CPA
State Auditor

South Carolina Department of Labor, Licensing and Regulation

Columbia, South Carolina

Report on Agreed-Upon Procedures

for the year ended June 30, 1999

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
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") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 the 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 from sources other than State General Fund appropriation to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comment 4 of the Accountants' Comments section of this report.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 STARS as reflected on the Comptroller General's reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comment 3 of the Accountants' Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in STARS as reflected on the Comptroller General's reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented as Comment 2 in the Accountants' Comments section of this report.
4. We tested 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries, operating transfers and appropriation transfers selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested 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 they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if the 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our findings as a result of these procedures are presented in Comments 3 and 4 in the Accountants' Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998 to determine if adequate corrective action had been taken. Our findings as a result of these procedures are presented in the Status of Prior Findings section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comment 1 of the Accountants' Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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, South Carolina Office of the State Auditor and the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
June 1, 2000

Accountants' Comments

Accountants' Comments

We noted the following matters during our engagement:

1. CLOSING PACKAGES

- A. We noted certain instances in which the reviewer checklist was not included in the workpapers. We also noted that in certain instances the reviewer checklist was either not signed or not dated.
- B. We noted that subsequent to filing the General Fixed Assets Summary Form, the agency noticed a correction to prior year balances of Buildings and Improvements. The correction was not submitted in time to be included in the State's financial statements for the year ended June 30, 1999.

Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) requires accurate closing packages and completion of the reviewer's checklist for each closing package. Further, the GAAP Manual stipulates that each agency's executive director and finance director are responsible for submitting accurate and complete closing package forms that are completed in accordance with the guidelines. The GAAP Manual lists a submission date for each closing package. The GAAP Manual states that an official other than the official who prepared the package must review each package.

We recommend the Department implement procedures to ensure that personnel responsible for completing and reviewing closing packages are familiar with the closing package instructions and guidelines. The Department should review and verify all documentation used in preparing closing packages.

2. TERMINATION PAY

In our test of employees who terminated employment with the Department, we noted that the final payment for an employee was incorrect by \$100. We noted that the amount was correctly calculated in the employee folder but apparently input in the system incorrectly.

An effective accounting system includes control procedures to ensure proper recording of transactions.

We recommend the Department implement procedures to ensure that the final pay is calculated correctly and, further, that the correct payment amount is input into the system. We also recommend that all computations for termination pay be adequately reviewed.

3. NON-PAYROLL DISBURSEMENTS

We found an instance in which the disbursement voucher was not cancelled to prevent re-entry. In addition, we found an instance in which the supporting documentation was not cancelled.

The Department's policy requires that disbursement vouchers and supporting documentation be properly cancelled. We recommend that the Department take measures to ensure that personnel understand the importance of canceling paid vouchers and supporting documentation. We further recommend the disbursement vouchers be reviewed by appropriate Department personnel prior to filing to ensure vouchers and support were canceled.

4. RECEIPTS

We noted in 2 of our 25 selections for testing that documentation was not available to support receipts. In addition, we noted two instances where deposits were not made on a timely basis. Appropriate documentation should be included with all receipts and deposits should be made within seven days of the receipt of cash. Supporting documentation should include date, description and amount of the receipt.

We also noted in 5 of our 25 selections for testing, which consisted of two of the Department's boards, that deposit control sheets were not maintained in detail by payer.

We also noted certain instances in which an incorrect object code was used in recording receipts.

Timely deposit of receipts is required by State Law under the annual Appropriation Act proviso. This requirement is included in Proviso 72.1 in Part IB of the 1999 Act. Proper controls should be in place to ensure that correct object codes are used in recording receipts and that deposit control sheets are maintained in detail by payer. We recommend that the Department implement procedures to ensure that appropriate documentation is included with receipts, that deposits are made in a timely manner, that a detailed listing of deposits be maintained and that correct object codes are used in recording receipts.

Status of Prior Findings

Status of Prior Findings

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the State Auditor's Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998, dated July 26, 1999. We determined that the Department has taken adequate corrective action on each of the findings in its fiscal year 1998 report.

Management's Response



LLR

SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING AND REGULATION

Jim Hodges
Governor
Rita M. McKinney
Director

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June 22, 2000

Mr. Don Mobley, CPA
Scott McElveen, LLP
1441 Main Street, Suite 1200
PO Box 8388
Columbia, SC 29202

Dear Mr. Mobley:

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, 1999. Recommendations made by Scott McElveen are being implemented to ensure compliance with all applicable provisions of State Law.

I am authorizing release of the report.

Sincerely,

A handwritten signature in cursive script that reads "Deme Loftis".

Deme Loftis
Deputy Director, Administration