

**SOUTH CAROLINA  
WORKERS' COMPENSATION COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2011**

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# 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

July 17, 2012

The Honorable Nikki R. Haley, Governor  
and  
Commissioners  
South Carolina Workers' Compensation Commission  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Workers' Compensation Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2011, in the areas addressed. The Commission'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 agency'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 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 general and earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$32,100 – general fund and \$25,100 – earmarked fund) and  $\pm 10$  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 Revenue and Expenditure Cut-Off 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 Commission, 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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$19,100 – general fund and \$26,500 – earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue and Expenditure Cut-Off 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 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 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 current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$19,100 – general fund and \$26,500 – earmarked fund) and  $\pm 10$  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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

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

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

6. **Reporting Packages**

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

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

The Honorable Nikki R. Haley, Governor  
and  
Commissioners  
South Carolina Workers' Compensation Commission  
July 17, 2012

7. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010, 2009, and 2008.

Our finding as a result of these procedures is presented in Pay Calculations 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 Commission and management of the South Carolina Workers' Compensation Commission 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.

## **REVENUE AND EXPENDITURE CUT-OFF**

We tested twenty-five cash receipt transactions and twenty-five cash disbursement transactions to ensure that the transactions were recorded in the proper fiscal year. One of the receipt transactions and five of the disbursement transactions were recorded in the wrong fiscal year. The receipt transaction related to receipts received on June 30, 2011 and deposited on July 1, 2011. The Commission recorded the deposit as a fiscal year 2012 transaction. The disbursement transactions all related to the reimbursement of June 2011 employee travel. The Commission recorded the transactions in fiscal year 2012. Commission personnel explained that they had encountered problems when posting the transactions in the new statewide accounting system.

State Treasurer and Comptroller General year-end close-out procedures require that receipts are recorded in the same fiscal year that cash is received and that expenditures are recorded in the same fiscal year that the good or service is received.

We recommend that the Commission implement procedures to ensure that accounting transactions are recorded in the proper fiscal year.

## **PAY CALCULATIONS**

Based on our review of support documentation we determined that one of eleven employees that terminated employment during the fiscal year ended June 30, 2011 was overpaid one day's wages, or approximately \$77. A similar finding was reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2007. Commission personnel explained that they improperly paid the former employee one day's wages while the employee was in leave without pay status. The error was processed by new statewide accounting system and the error was not detected by Commission personnel.

Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving a salary from the State, which is not due or persons employed by the State from paying salaries or monies not due to State employees.

We recommend the Commission develop and implement procedures to ensure that payments to employees are accurate and that errors are detected and corrected timely.

## **AUTHORIZED ATTORNEY FEES**

Section 1-7-170 of the South Carolina Code of Laws states, "A department or agency of the state government may not engage on a fee basis an attorney at law except upon written approval of the Attorney General and upon a fee as must be approved by him."

The Commission engaged an attorney on a fee basis with written approval of the Attorney General but attorney fees paid to that attorney exceeded the requested maximum fees approved by the Attorney General for the fiscal year ended June 30, 2011. The Attorney General's Office authorized payments totaling \$25,000; the Commission made payments of approximately \$28,000 to the attorney during the fiscal year.

We recommend the Commission develop and implement procedures to ensure compliance with all requirements of Section 1-7-170 of the South Carolina Code of Laws.

## **REPORTING PACKAGES**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual 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." Our testing of the Commission's closing packages disclosed the following exceptions:

### **Compensated Absences Reporting Package**

The annual leave balance for one of twenty-five employees selected for testing was incorrect because the annual leave balance did not include a leave request which was processed after the compensated absences closing package was prepared and submitted.

### **Capital Assets Reporting Package**

The Commission properly submitted a Capital Assets Summary Form (form 3.8.2) as required by the Capital Assets Questionnaire (form 3.8.1) because the SCEIS Asset History report was not accurate and complete. The Commission was required to complete form 3.8.2 due to differences between the Commission's Capital Asset Worksheet and the SCEIS Asset History report (e.g., fiscal year 2009 additions were omitted from the SCEIS Asset History report, asset useful lives did not agree and the current year additions did not agree). Based on our test of the Capital Assets Summary Form we determined that the Commission improperly reported current year asset additions as net corrections to the beginning balance.

We recommend that the Commission develop and implement procedures to ensure that all closing packages are completed in accordance with the Reporting Policies and Procedures Manual and form instructions. Furthermore, we recommend that the Commission analyze the SCEIS Asset History report to identify errors and consult with SCEIS personnel to correct the errors.

## **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 Commission for the fiscal year ended June 30, 2007, and dated September 4, 2008. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010, 2009, and 2008. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated the finding titled Pay Calculations.

**MANAGEMENT'S RESPONSE**

# *State of South Carolina*

1333 Main Street, 5<sup>th</sup> Floor  
P.O. Box 1715  
Columbia, S.C. 29202-1715



TEL: (803) 737-5700  
FAX: (803) 737-5764

## *Workers' Compensation Commission*

### **MANAGEMENT'S RESPONSE TO ACCOUNTANTS COMMENTS STATE AUDITOR'S REPORT JUNE 30, 2011**

#### **Section A – Violation of State Laws, Rules or Regulations**

##### **Revenue and Expenditure Cut-off**

Management does not dispute the finding that one (1) receipt transaction and five (5) disbursement transactions were recorded in the wrong fiscal year. However, the Commission disputes the five (5) disbursement transactions noted as violation of state laws, rules or regulations because the disbursements are required to be made through the state employee payroll system and beyond the accounting control of the Commission.

##### **Cash Receipt Transaction**

The Commission's standard operating procedure is to deposit receipts the next business day. This procedure was followed for the receipts of June 30, 2011, causing the deposits to be recorded in the next fiscal year. The Commission will continue to follow the standard operating procedure for depositing receipts the following business day of receipt with the exception of the end of the fiscal year. The Commission will implement new procedures to ensure receipts received June 30 or the last business day of June will be deposited and recorded the same day.

##### **Cash Disbursement Transaction**

The five (5) cash disbursement transactions recorded in fiscal year 2012 were reimbursement for employee travel categorized as Commissioner Taxable Subsistence which occurred in June 2011. The Commissioner Taxable Subsistence is processed through the state employee payroll system because of the federal and state tax liabilities on the reimbursable amount. The travel expenses incurred under this category during June and disbursed in July with payroll are automatically made through employee payroll system and beyond the accounting control of the Commission. To comply with the

requirement of travel expenses incurred be reimbursed within the same fiscal year would prohibit the Commissioners traveling and conducting hearings during the month of June.

### **Pay Calculations**

Management does not dispute the finding of the overpayment of one day's wages, approximately \$77, to one employee in fiscal year 2011. The similar finding reported in fiscal year 2007 was a result of the Commission's manual miscalculation of the former employee's wages while the employee was in a leave without pay status. However, all transactions during fiscal year 2011 were properly entered into SCEIS by Commission staff, the overpayment noted in the audit report finding was a result of the automatic calculation by the statewide employee payroll system, SCEIS. Management will review procedures and implement controls to ensure the accuracy of final payroll over which we have control. Management will coordinate with SCEIS to ensure final payroll which are automatically calculated are accurate.

### **Authorized Attorney Fees**

Management does not dispute the Commission paid an attorney for contracted legal services exceeded the maximum fees approved by the Attorney General by \$3,000. The fees noted in the Audit Report were for legal services performed by outside counsel after a final decision was issued by the court of pending litigation. The Commission will implement review and control procedures to ensure fees paid to attorneys will not exceed the amount approved by the Attorney General.

### **Reporting Packages**

#### **Compensated Absences Reporting Package**

Management does not dispute the finding one employee recorded one day (7.5 hours) of leave after the reporting package was completed. The Commission will implement procedures and controls to ensure employees record their leave within the required time prior to the preparation and submission of the financial closing package.

#### **Capital Assets Reporting Package**

Management does not dispute the finding the Commission improperly reported current year asset additions as net corrections to the beginning balance. The Commission will implement new control procedures to ensure all closing packages are completed as required by the Reporting Policies and Procedures Manual. Further, the Commission will review the SCEIS Asset History to identify errors and consult with SCEIS personnel to correct any errors discovered during the review

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