

**SOUTH CAROLINA
WORKERS' COMPENSATION COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 23, 2015

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, 2014, 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 twenty-five 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 seven 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, earmarked and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$15,000 – general fund, \$38,000 – earmarked fund, and \$3,600 – restricted 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. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 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 fifteen 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, earmarked, and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$18,400 – general fund, \$27,800 – earmarked fund, and \$1,500 – restricted fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 five selected new employees and five individuals 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 (\$18,400 – general fund and \$27,800 – earmarked 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 ± 10 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 the procedures.

4. **Journal Entries and Transfers**

- We inspected five selected recorded journal entries and seven 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 Commission's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 findings as a result of these procedures are presented in Reporting Packages and Payments to Private Attorney in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Workers' Compensation Commission
April 23, 2015

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, 2013, to determine if the Commission had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages 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 the governing body 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.

REPORTING PACKAGES

The accountant's comment titled Reporting Packages reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2013, included an exception for the Capital Assets Reporting Package not disclosing all necessary corrections to the SCEIS Asset History Report. In addition, the prior year accountant's comment cited the Commission for submitting a reporting package form several weeks after the due date of the form. Similar exceptions were noted within our testing of the fiscal year 2014 reporting packages and are included with other current year reporting package exceptions.

Timely Submissions

Two of the Commission's ten reporting packages were submitted after their respective due dates. One of the reporting packages was submitted several days late and another reporting package was submitted several weeks after the due date.

Capital Assets Reporting Package

The Commission answered yes to Part I, Question 1 of the Capital Assets Questionnaire (form 3.8.1) and therefore did not submit a Capital Assets Summary Form (form 3.8.2) as required when corrections are needed. However, based on our comparison of the Commission's Capital Asset Worksheet and the SCEIS Asset History report, we determined that the Commission had not corrected errors identified during the fiscal year 2013 engagement. As a result, we noted that the accumulated depreciation reported on the SCEIS Asset History report was overstated by approximately \$2,000. The Commission should have answered no to the question on form 3.8.1 and reported the correction on form 3.8.2.

Operating Leases Reporting Package

Several calculation errors were noted on the reporting package. Based on our review, we determined that the Commission's reported future minimum lease payments were understated by approximately \$1,200 for 2015 and overstated by approximately \$76,000 for 2016.

Accounts Payable

The Accounts Payable Reporting Package was submitted timely in September with the correct payable balance reported. However, three additional payables totaling approximately \$1,000, were accumulated in the accounting system between the date that the Accounts Payable Reporting Package was submitted and the date the Subsequent Events Questionnaire was filed in November. The Commission's evaluation of liabilities performed in November did not identify and report the additional accounts payables on the Subsequent Events Questionnaire.

The timing of the 2013 State Auditor's agreed upon procedures engagement did not identify the reporting package error in time to allow the Commission to correct the prior year error before the 2014 Capital Assets Reporting Package due date. Staff turnover and staff interpretation of reporting package instructions contributed to the other reporting package exceptions.

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 reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

We recommend the Commission develop and implement procedures to ensure that all reporting packages are completed in accordance with the Reporting Policies and Procedures Manual and form instructions.

PAYMENTS TO PRIVATE ATTORNEY

Our review of payments to private attorneys reported on the Commission's Litigation Reporting Package, disclosed that the Commission recorded charges for one of the two private attorneys paid during the fiscal year to the wrong general ledger expense account. Two payments were made to the attorney during the fiscal year and both were charged to legal services (SCEIS Account 5021010000) instead of attorney fees (SCEIS Account 5021020000). In addition to the miscoding errors, we noted the Commission overpaid one of the attorneys. The Commission was billed \$690 on one invoice. The subsequent month's invoice included the current month's charges, plus the previous month's balance. The Commission paid the total balance from the invoice even though it had already paid the prior month's invoice. As a result the Commission overpaid the attorney \$690.

Effective internal controls include procedures to ensure that transactions are properly recorded in accordance with Comptroller General's Policies and Procedures and in a manner that prevents overpayment.

We recommend the Commission strengthen its internal controls over the recording of financial transactions. The Commission should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code and that no overpayment occurs.

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, 2013, and dated September 11, 2014. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated Reporting Packages.

MANAGEMENT'S RESPONSE



Workers' Compensation Commission

South Carolina Workers' Compensation Commission
Management Comments / Response to Draft Findings
Fiscal Year 2013 – 2014 Preliminary Draft Audit Report

SECTION A – General Comment

The Commission appreciates the effort and diligence of the professional staff and management of the Office of the State Auditor. The Commission believes that the input and guidance provided by the Office of the State Auditor will enable the Commission to better serve our stakeholders and the citizens of South Carolina.

The Commission has experienced significant staff turnover in the role of the Chief Financial Officer for the agency. Over the past 13 months, three different individuals have served as the agency's CFO. Given the relatively small size of the Commission, historically all accounting and finance related duties have been performed by the CFO (as the lone member of the finance and accounting staff). In March of 2015, the Commission undertook a reorganization which has resulted in both a cost savings to the agency as well as an expansion of the Finance and Accounting department staffing. It is believed that this reorganization will improve the Commission's fiscal efficiency, compliance and accountability in the future.

Timely Submissions

The Commission concurs with the finding and will take necessary steps to address the issue.

Capital Assets Reporting Package

The Commission concurs with the finding.

Operating Lease Reporting Package

The Commission concurs with this finding with the following caveat. The Audit Report indicates that the Commission has overstated the 2015-16 office space lease payments by approximately \$76,000. The Commission's office space lease payments are contractually established at a monthly rate of \$38,013.94. The Commission's lease agreement is slated to expire at the close of month 10 of FY 2015-16. Therefore the Commission is currently contractually obligated to a FY 2015-16 office lease payment of \$380,139.40. However, in an abundance of caution and using the best data available at the time of budget preparation, the Commission has forecast an additional two month lease spend of \$76,027.60 ($\$38,013.94 \times 2$). The Commission believes that it would have been fiscally unsound to neglect to budget for lease expenditures in months 11 and 12 of FY 2015-16.

FY 2015-16 Lease Expense Forecast

Month	Payment Amount
7/1/15	38,013.94
8/1/15	38,013.94
9/1/15	38,013.94
10/1/15	38,013.94
11/1/15	38,013.94
12/1/15	38,013.94
1/1/16	38,013.94
2/1/16	38,013.94
3/1/16	38,013.94
4/1/16	38,013.94
5/1/16*	*Current lease expires
6/1/16*	
	380,139.40 456,167.00 76,027.60

Accounts Payable

The Commission concurs with this finding and is taking steps to develop and implement procedures to ensure that all reporting packages are completed in accordance with the Reporting Policies and Procedures Manual and form instructions.

Payments to Private Attorney

The Commission concurs with this finding. The payment error has been reconciled and the Commission will take steps necessary to adopt the recommendation as presented.

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