

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 24, 2016

The Honorable Nikki R. Haley, Governor
and
Ms. Richele Taylor, 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 governing body and 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, 2014, 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 twenty-five 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 twenty-five 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, restricted and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$11,700 – general fund, \$203,400 – earmarked fund, \$200 – restricted fund, and \$23,200 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Rebate Documentation and System Integration in the Accountant's Comments section of this report.

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 Department'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 twenty-five 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, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$21,000 – general fund, \$170,400 – earmarked fund, \$0 – restricted fund, and \$24,200 – federal 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department's policies and procedures and State regulations.
- We inspected payroll transactions for eleven selected new employees and ten individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department'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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$21,000 – general fund, \$170,400 – earmarked fund, \$0 – restricted fund, and \$24,200 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected twenty-five selected recorded journal entries, all operating transfers, and five 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 Department'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. **General Ledger and Subsidiary Ledgers**

- We inquired of any general ledger and subsidiary ledgers and noted only one area of receivables maintained outside of SCEIS. This receivable was tested through cash receipts and revenues, and the reporting packages sections.

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected two selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly 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 State Treasurer's Office monthly 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.
- The composite account is used only to fund non-sufficient fund check activity. There were no cash receipts or cash disbursements processed by the Department during the year.

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

7. **Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 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 Petty Cash Authorization and Reporting Packages 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, 2014, 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.

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

We found no exceptions to be repeated as a result of the procedures.

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 South Carolina Department of Labor, Licensing and Regulation has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.

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February 24, 2016

- Reporting packages which are submitted less than 3 business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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 governing body and management of the South Carolina Department of Labor, Licensing and Regulation and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA
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.

PETTY CASH AUTHORIZATION

During our review of the Cash and Investments Reporting Package, we found that the Department did not have prior approval from the State Auditor's Office for the \$200 petty cash account. The account was established in June 2013, but no approval was requested from the State Auditor at that time.

State of South Carolina Statewide Disbursement Regulations specifies that the approval of the State Auditor is required to establish a petty cash fund.

We recommend the Department strengthen control procedures regarding petty cash to ensure that all account requests are approved by the State Auditor prior to establishing and maintaining the account.

REPORTING PACKAGES

Grants And Contributions Reporting Package

As a result of our review of the Department's Grants and Contributions Reporting Package, we noted that the amounts reported did not include grant accounts payable. In addition, due to the omission, the grant receivable amount was incomplete. Grants that have outstanding payables which are reimbursable by the grantor should be included in the grants receivable calculation. The error resulted in an understatement of approximately \$17,681.

Accounts Payable Reporting Package

During our review of the Department's Accounts Payable Reporting Package, we noted that the Department inaccurately reported its vendor accounts payable. We found that the Department did not include multiple payables in its total amount reported, which were each recorded in the general ledger as a prior year payable. As a result of the Department not

reconciling the Comptroller General's report to a real time Department report prior to submission of the reporting package, reported accounts payable was understated by approximately \$10,695.

Compensated Absences Reporting Package - Employee Leave Balance

As a result of our review of the Department's Compensated Absences reporting package we noted that one of the Department's employees was inadvertently omitted from the SCEIS report provided to the Department. The omission was caused by a delay in changing the employee's time management status to one which allowed leave to accrue. The employee was previously working as a temporary employee and thus ineligible to earn leave. The time management status was corrected after fiscal year end but was not reported as an update on the Subsequent Events Reporting Package. The omission of the employee caused the Department's compensated absences payroll liability to be understated by approximately \$2,932.

The Comptroller General's Policies and Procedures state: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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 Department follow the policies and procedures established by the Comptroller General's Office to ensure that reporting packages are completed in accordance with instructions. In addition, we recommend the Department strengthen its controls over reporting package review, to ensure accurate and complete reporting at fiscal year-end.

ATTORNEY FEES

As a result of our review of the Department's Litigation Reporting Package, we noted that one of four legal firms engaged by the Department was not approved by the Attorney General's Office during the 2014 fiscal year. A total of \$675 was paid to this attorney during the year. In addition, the Department coded the invoices received to general ledger account 5021010000 – Legal Services instead of 5021020000 – Attorney Fees, for which the account definition explicitly states "expenditures made to pay private attorneys for professional fees."

South Carolina Code of Law Section 1-7-170 states, "(A) A department or agency may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him..." In addition, the Comptroller General's Office provides detailed general ledger account descriptions for agencies' reference.

We recommend the Department receive approval from the Attorney General prior to incurring attorney fee expenses in order to be in compliance with State laws, rules, and regulations. We also recommend the Department comply with the Comptroller General accounting policies and procedures.

ASSET INVENTORY

During our review of the Appropriation Act work program in regards to the Department's compliance with State laws, rules, and regulations, we noted that the Department could not provide documentation of a complete inventory of personal property under its supervision. A partial inventory of capital assets and IT assets was taken, but this inventory omitted certain capital assets as well as low value assets.

South Carolina Code of Laws 10-1-140 states, "The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all property under his supervision, except expendables."

We recommend the Department establish a procedure to ensure that inventory of all assets is completed at least once each fiscal year. We also recommend the Department establish review procedures of South Carolina State laws, rules, and regulations to ensure compliance.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

REBATE DOCUMENTATION

One of twenty-five receipt transactions tested included a monthly rebate for which the Department could not provide adequate supporting documentation. As a result, we were unable to verify that the funds received were calculated correctly, and that the Department was authorized to collect such funds.

Maintaining adequate accounting records is essential to good business practice and an effective system of internal controls.

We recommend the Department develop policies regarding the retention and safe keeping of financial records to ensure that transactions in the accounting system are properly supported.

SYSTEM INTEGRATION

One of twenty-five receipt transactions tested included a payment that was incorrectly coded to the general ledger upon receipt. The transaction was later corrected in the Department's internal accounting system, ReLAES, but the change did not flow through to SCEIS. In addition, it was noted that the Department coded entries from individual boards through ReLAES related to Return Check Fees to the Miscellaneous Revenue account rather than the Return Check Fee account. As a result, the general ledger at year end was misstated and the errors increase the risk of future miscoded transactions.

Complete system integration is essential to ensuring that transactions are properly recorded in the State's accounting system, SCEIS.

We recommend the Department review its established controls between ReLAES and SCEIS, and implement IT coding to ensure that all transactions, both initial postings and subsequent changes, are properly approved and properly posted to SCEIS.

TEMPORARY EMPLOYEES

During our tests of the Department's payroll disbursements and expenditures we found temporary employees that remained on payroll without a break in service after a twelve-month period. No documentation was available to support the continued service of the temporary employees. It was also noted that temporary employees would remain unutilized for an extended period of time without being removed from the system. A formal evaluation process was not established during fiscal year 2014 to track service dates for temporary employees in order to ensure temporary employees at a minimum took a two week break or were properly terminated from the system.

The South Carolina State Human Resources Regulations define a temporary employee as a full-time or part-time employee who does not occupy an FTE position, whose employment is not to exceed one year, and who is not a covered employee. Removing unutilized temporary employees from the payroll system is essential to good business practice and an effective system of internal controls.

We recommend the Department develop policies and procedures for tracking and evaluating temporary employees to ensure that their employment does not exceed one year and maintain approved documentation to justify continued employment if necessary. We also recommend the Department strengthen control procedures over the review process for temporary employees to ensure that terminations are timely performed and properly removed from the payroll system.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2013, and dated June 4, 2014. We determined that the Department has developed and implemented procedures to correct the specific weakness reported in the prior year.

MANAGEMENT'S RESPONSE

On behalf of the South Carolina Department of Labor, Licensing and Regulation, I have reviewed the Independent Accountant's Report on Applying Agreed-Upon Procedures. The Agency is continuing to improve its processes and procedures, and takes the recommendations seriously. As noted in *Section C- Status of Prior Findings*, the Agency has corrected weaknesses identified in the prior report. With regard to the Report for the fiscal year ending June 30, 2014, the Agency will continue to review recommendations and update processes based on the audit. In the section titled *Rebate Documentation*, the Agency maintains that it did provide adequate supporting documentation. The receipts were attached to the entries, and the rebate paperwork, dealing with a State Contract rebate, was provided through the Procurement Department. We submit all the records were properly retained in the two departments.

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