

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

STATE AUDITOR'S REPORT

JUNE 30, 2016

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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

January 19, 2017

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 Worker's Compensation Commission, (the Commission) solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2016, 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 nine 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$14,600 – general fund, \$40,300 – earmarked fund, and \$1,500 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding 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 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 twelve 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 (\$19,200 – general fund, \$30,000 – earmarked fund, and \$3,400 – restricted fund) and ± 10 percent.
- We inspected ten selected recorded procurement card transactions to determine if these transactions were purchased by an authorized cardholder user and are reasonable based upon the cardholder's position; monthly purchase summaries were submitted along with receipts and signed by supervisor and employee; and the single transaction limit was not exceeded with no indication of transaction splitting.

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

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 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 inspected five selected bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations Act to determine that the bonuses were paid in accordance with State regulations.

- 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 (\$19,200 – general fund and \$30,000 – 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 Interagency Cash/Appropriation Transfers**

- We inspected five selected recorded journal entries and eight interagency cash/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 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, 2016, 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 Operating Leases Reporting Package and Petty Cash in the Accountant's Comments section of this report.

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, 2014, to determine the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2015.

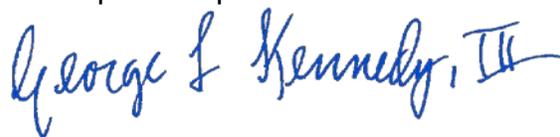
Our findings as a result of these procedures are presented in Account Coding and Operating Leases Reporting Package in the Accountant's Comments section of this report.

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 Commission 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 ten 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 ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three 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 three business days late.

We were not engaged to and did not conduct an examination, 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 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.



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.

Account Coding

Condition:

1. We noted the following account coding errors during our testing of the Commission's revenues:
 - a. Three transactions for revenue received for registration fees totaling \$870 were coded to GL Account 4480020000 (Sale of Services) instead of GL Account 4380020000 (Training Conference Registration Fee).
 - b. Two transactions for revenue received for filing fees totaling \$75 were coded to GL Account 4380050000 (Photocopying Fee) instead of GL Account 4110090000 (Wrk Comp Hearing Fee).
 - c. One transaction for revenue received for self-insurance taxes totaling \$659,381 was coded to GL Account 4160040000 (W Comp Self Ins Appl Fee) instead of GL Account 4080100000 (Wrk Comp Self Ins Tax).
 - d. One claim reimbursement totaling \$1,194 was coded to GL Account 4530070000 (Dep By Private Ent) and another claim reimbursement totaling \$429 was coded to GL Account 4530030000 (Misc Revenue). Both of these transactions should have been coded as reimbursements to GL Account 5140010000 (Indm Claims & Awards).
 - e. Four transactions for revenue for various fees and forms totaling \$17,425 were coded to GL Account 4530030000 (Misc. Revenue). We determined the revenue should have been coded as follows:
 - \$600 to GL Account 435014000 (W/C Award Review Fee)
 - \$925 to GL Account 4380050000 (Photocopying Fee)
 - \$7,930 to GL Account 4223030000 (W Comp FI Viol Penalty)
 - \$7,100 to GL Account 4110090000 (Wrk Comp Hearing Fee)
 - \$460 to GL Account 4480060000 (SL of Listing and LBL)
 - \$50 to GL Account 4160040000 (W Comp Self Ins Appl Fee)
 - \$360 to GL Account 4480070000 (Sale of Surplus Mat & Sup)
2. We noted the following account coding errors during our testing of the Commission's disbursements:
 - a. A payment for a subscription to an online database and printed materials in the amount of \$338 was coded to GL Account 5020070000 (Data Processing Services – Other) instead of GL Account 5030010004 (Subscriptions).
 - b. A maintenance plan payment for a copier in the amount of \$36 was coded to GL Account 5040050000 (Rental – Contingent Rental Payment) instead of GL Account 5020020000 (Copying Equipment Service).

- c. Two monthly rental payments for a copier both in the amount of \$191 were coded to GL Account 5040050000 (Rental – Contingent Rental Payment) instead of GL Account 5040020000 (Rent – Copying Equipment).
 - d. A payment for service notices in the amount of \$60 was coded to GL Account 5040510000 (Insurance – State) instead of GL Account 5024990000 (Other Contract Services).
3. During our testing of the Litigation Reporting Package, we noted multiple payments totaling \$3,361 for attorney fees were coded to GL Account 5021010000 (Legal Expenses) instead of GL Account 5021020000 (Attorney Fees).

Cause:

Commission personnel stated the miscodings were due to employee error.

Effect:

Various account codes were misstated.

Criteria:

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent accounting treatment.

Recommendation:

We recommend the Commission ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

Management's Response:

The Commission has implemented procedures to ensure there is independent review of accounting transactions to ensure proper accounting codes are used. Further training will be conducted for employees involved to decrease the incident rates of errors.

Operating Leases Reporting Package

Condition:

1. On Form 3.09.1 (Operating Leases Summary Form – Lessee) the Commission incorrectly reported amounts for Contingent Rental Payments, Required Minimum Lease Payments for Operating Leases and Other Adjustments.
2. The Commission omitted three operating leases from Form 3.09.1a (Operating Leases Future Minimum Payment Schedule). In addition, the Commission incorrectly reported the amount of Current Expense and Future Minimum Lease Payments for fiscal years 2017 – 2019 on Form 3.09.1a.

Cause:

The Commission was unable to provide adequate responses due to turnover in key personnel during the time the reporting package was completed.

Effect:

1. Contingent Rental Payments was overstated by \$17,440, Required Minimum Lease Payments for Operating Leases was understated by \$12,428 and Other Adjustments was understated by \$5,012.
2. Total Current Expense and Total Future Minimum Lease Payments for 2017-2019 were understated by \$12,428 and \$23,003, respectively, on Form 3.09.1a.

Criteria:

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".

Recommendation:

We recommend the Commission implement procedures to ensure reporting packages are accurately completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Commission personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

Management's Response:

We acknowledge the failure to submit all Reporting packages completely and in a timely manner. This resulted from a change in key personnel responsible for the completion of the reports. Appropriate personnel have been employed in the positions responsible for the preparation of the reporting packages. The reporting package instructions and packages will be properly reviewed prior to submission to eliminate errors.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

Petty Cash

Condition:

The Commission has an authorized petty cash account of \$300 which we agreed to the SCEIS Cash and Investments report as of June 30, 2016. Per our review of the Commission's petty cash log, the petty cash balance was \$21. No reconciliation of these amounts was performed by the Commission.

Cause:

According to Commission personnel, the petty cash was maintained by a former employee in fiscal year 2016 and an end of the fiscal year petty cash count/reconciliation was not performed.

Effect:

The Commission does not have adequate internal controls in place to mitigate the risks associated with its petty cash account.

Criteria:

A strong system of internal controls includes procedures to ensure documentation of reconciliations of cash on hand being performed and properly approved.

Recommendation:

We recommend the Commission implement procedures to ensure that reconciliations of the petty cash fund are properly documented and independently reviewed. We also recommend the Commission periodically perform surprise counts of the petty cash account to ensure that the cash on hand reconciles with the authorized balance.

Management's Response:

The Commission has implemented internal controls to provide proper documentation of petty cash fund transactions and the transactions are independently reviewed. Further, periodic unannounced reviews of the account will be made to verify the cash on hand reconciles with the authorized balance.

SECTION C - 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, 2014, and dated April 23, 2015. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2015. We determined that the Commission has taken adequate corrective action on each of the findings titled Capital Assets Reporting Package and Accounts Payable. Further, we determined the findings titled Operating Leases Reporting Package and Payments to Private Attorney still exist; consequently, we have reported similar findings in Section A of the report.

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