

**SOUTH CAROLINA  
WORKERS' COMPENSATION COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

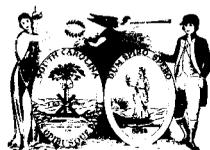
**STATE AUDITOR'S REPORT**

**JUNE 30, 2002**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 9, 2003

The Honorable Mark Sanford, 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, 2002, 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. 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 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 appropriations to those of the prior year and we used estimations and other procedures to test the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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 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; 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 various STARS 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. We found no exceptions as a result of the procedures.
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 all employees 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual 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. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all operating and interagency 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 selected for testing were chosen randomly and judgmentally to include large, routine and unusual transactions. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Commission 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 Commission for the year ended June 30, 2002, and tested selected reconciliations of balances in the Commission'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 determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. We judgmentally selected the fiscal year-end reconciliations for testing. We found no exceptions as a result of the procedures.
7. We tested the Commission'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 2002. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Commission 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 finding as a result of these procedures is presented in Operating Leases Closing Package 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 areas, 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 Workers' Compensation Commission and is not intended to be and should not be used by anyone other than these specified parties.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

**MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

## OPERATING LEASES CLOSING PACKAGE

The Office of the Comptroller General (OCG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages because the State's accounting system (STARS) is on a budgetary basis. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states, "Each agency's executive director and finance director are responsible for submitting . . . closing package forms . . . that are: • Accurate and completed in accordance with instructions. • Complete. • Timely."

The Closing Package Control Checklist (Section 2.0 of the GAAP Manual) requires an agency to prepare an Operating Leases Closing Package if it had noncancelable operating leases in effect at June 30 that had a combined total liability greater than \$200,000 for all future years. During our review of fiscal year 2002 closing packages, we determined the Commission had three noncancelable operating leases in effect at June 30, 2002 with a combined total liability of approximately \$3,630,000. The Commission entered into a temporary lease agreement for rental of office space in July 2001. After renovation negotiations and several changes to the original lease, a final agreement was reached and was effective in May 2002. The Commission also entered into two lease agreements for the rental of laptop computers during fiscal year 2002. The terms of the leases were from March 2002 through January 2004. Therefore, these leases should have been reported on the fiscal year 2002 operating leases closing package.

Management stated that it did not prepare the closing package because it did not think the building lease was effective until fiscal year 2003 and the computer leases would not have had a combined total liability greater than \$200,000 for all future years.

We recommend that the Commission implement policies and procedures to ensure that all required closing packages are completed and contain accurate and complete information in accordance with the GAAP Manual instructions.

**MANAGEMENT'S RESPONSE**



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## Workers' Compensation Commission

October 30, 2003

The Honorable Thomas L. Wagner, Jr.  
State Auditor  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

**RE: South Carolina Workers' Compensation Commission  
State Auditor's Report – June 30, 2002**

Dear Mr. Wagner:

I received the preliminary draft copy of the report resulting from your performance of agreed-upon procedures to the accounting records of the South Carolina Workers' Compensation Commission for the fiscal year ending June 30, 2002. I have reviewed the report and can now authorize its release. I would, however, like to provide a response to the matters discussed in the Accountant's Comments.

Management of the Workers' Compensation Commission is clearly responsible for the establishment and maintenance of internal controls over internal accounting functions. As such, the Workers' Compensation Commission is required to submit all closing packages as required by the GAAP Manual. During fiscal year 2002, the agency was involved in ongoing lease negotiations with its landlord. During the negotiations, the agency relocated to the upper two floors of the building located at 1612 Marion Street so that renovations necessary to execute a new lease could be done to the Commission's space. The relocation took place in October 2001 and the Commission moved back into its preferred space in March 2002. While the bulk of the renovations had been completed, there were still items that were left unfinished. It was not clear until after June 30, 2002 that the lease went into effect in May 2002 due to the landlord's necessity to totally complete the renovations. This mayhem resulted in a misunderstanding of the responsibilities of the Commission with regard to completing the Operating Leases Closing Package. As a result of this oversight, the Commission has implemented policies and procedures to ensure that all required closing packages are accurately completed and contain all information in accordance with the GAAP Manual Instructions.

The Honorable Thomas L. Wagner, Jr.  
October 30, 2003  
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I would like to take the opportunity to commend Tina Seale, who handled the audit of the Commission. Ms. Seale began her audit right after the Commission lost its Finance Director. I was required to step up and stand in the shoes of a Finance Director during this period of time. Ms. Seale is extremely knowledgeable about proper accounting procedures. She was both helpful and patient in explaining various procedures to me. She is quite a professional and I would like to thank her for her hard work.

Should you have any questions or need additional information, please feel free to contact me.

Sincerely,

  
**ALICIA K. CLAWSON**  
Executive Director

AKC/kg

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