

**SOUTH CAROLINA
WORKERS' COMPENSATION COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
REVENUE CUT-OFF	6
REPORTING PACKAGES	7
Compensated Absences Reporting Package	7
Capital Assets Reporting Package	7
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

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

September 11, 2014

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, 2013, 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, 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 (\$33,100 – general fund, \$21,600 – earmarked fund, and \$9,400 – 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. Our finding as a result of these procedures is presented in Revenue 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 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, 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, \$27,300 – earmarked fund, and \$0 – 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 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 (\$18,400 – general fund and \$27,300 – 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 Appropriation Transfers**

- We inspected selected recorded journal entries 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 Commission's compliance with Appropriation Act general and agency specific provisos.

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, 2013, 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.

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, 2011, to determine if 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, 2012.

Our findings as a result of these procedures are presented in Revenue Cut-Off and Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Workers' Compensation Commission
September 11, 2014

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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 CUT-OFF

The accountant's comment titled Revenue and Expenditure Cut-Off reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2011, included an exception for a receipt transaction recorded in the wrong fiscal year. The comment explained that the transaction was not recorded in the same fiscal year that the cash was received as required by State Treasurer year-end close-out procedures.

Our test of twenty-five randomly selected fiscal year 2013 receipt transactions revealed one transaction which was recorded in the wrong fiscal year. The receipt transaction was related to receipts received on June 29, 2012 and deposited on July 2, 2012. The Commission recorded the transaction as a fiscal year 2013 transaction instead of a fiscal year 2012 transaction as required by State Treasurer year-end close-out procedures.

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

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, 2011, reported an exception related to the Compensated Absences Reporting Package due to unprocessed leave outstanding at the time that the reporting package was submitted, thereby misstating the liability. In addition, the Capital Assets Reporting Package did not correctly present corrections to the SCEIS Asset History Report. Our testing of the Commission's fiscal year 2013 reporting packages revealed similar exceptions on these reporting packages.

Compensated Absences Reporting Package

The annual leave balance for one of eighteen employees selected for testing was incorrect because the annual leave balance did not include a leave request which was processed after the compensated absences reporting package was prepared and submitted. The Commission failed to report a correction to the liability for compensated absences on the Subsequent Event Questionnaire filed in November. In addition, the questionnaire was submitted several weeks after the due date. Had the Commission answered the applicable question on the Questionnaire correctly, the correction could have been made.

Capital Assets Reporting Package

The Commission 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., current year accumulated depreciation reported on the Commission's

worksheet did not agree to SCEIS). The Commission failed to report adjustments for all the differences between the Capital Assets Worksheet and the SCEIS Asset History Report on form 3.8.2 and therefore accumulated depreciation was misstated by approximately \$2,400.

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. Furthermore, we again 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, 2011, and dated July 17, 2012. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated findings from that report in the following findings: Revenue Cut-Off and Reporting Packages.

MANAGEMENT'S RESPONSE

State of South Carolina

1333 Main Street, Suite 500
P.O. Box 1715
Columbia, S.C. 29202-1715



Tel: (803) 737-5700
Fax: (803) 737-5764
www.wcc.sc.gov

Workers' Compensation Commission

**MANAGEMENT'S RESPONSE TO ACCOUNTANTS COMMENTS
STATE AUDITOR REPORT
JUNE 30, 2013**

Section A- Violation of State Laws, Rules or Regulation

Revenue Cut-off

Management does not dispute the finding that one receipt transaction was recorded in the wrong year.

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, 2012, causing the deposit to be recorded in the next fiscal year. The Commission will continue to follow the standard operating procedure for depositing receipts the following 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.

Reporting Packages

Compensated Absences Reporting Package

Management does not dispute the finding one employee recorded 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 and/or report it on the Subsequent Even Questionnaire filed in November.

Capital Assets Reporting Package

Management does not dispute the finding that the Commission failed to report adjustments for all the differences between the Capital Assets Worksheet and the SCEIS Asset History Report on Form 3.8.2. 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.

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.