

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2018**



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 9, 2019

Ms. Emily Farr, Director  
South Carolina Department of Labor, Licensing,  
and Regulation  
Synergy Business Park, Kingstree Building  
110 Centerview Drive  
Columbia, South Carolina 29210

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Labor, Licensing, and Regulation (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor****Agreed - Upon Procedures Related to South Carolina Department of Labor, Licensing, and Regulation (R36)****Cash Receipts/Revenues**

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$200,000 and 10% in the Earmarked Fund.
2. Haphazardly select ten cash receipts transactions [excluding general ledger accounts Professional & Occupational License Renewal Fee and Professional & Occupational Application, Examination & License Fee] and inspect supporting documentation to:
  - Agree transaction amount, date, payer, document number, and account classification to the general ledger.
  - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
  - Determine that receipts are recorded in the proper fiscal year.

**Finding**

During our comparison of revenues procedure, we observed allocations of \$765,289 related to insurance tax premiums for the Department's Volunteer Strategic Assistance and Fire Equipment Program were incorrectly recorded in the insurance fee general ledger account instead of the insurance premium tax general ledger account.

**Management's Response**

This transfer is completed by the State Treasurer's Office (STO) quarterly. The general ledger code that was used was used by the STO at their discretion. We will contact the STO to ensure that they use the proper general ledger code in the future.

**Cash Disbursements/Non-Payroll Expenditures**

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations in the Land, Buildings, & Infrastructure, Scholarships, and Allocations general ledger account series in the Earmarked Fund, and the Supplies & Materials general ledger account series in the Federal Fund.
4. Haphazardly select ten non-payroll disbursements in the Travel and Allocations general ledger account series and inspect supporting documentation to determine:
  - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date. All supporting documents and approvals required by Department procedures are present and agree with the invoice.
  - The transaction is a bona fide expenditure of the Department.
  - The transaction is properly classified in the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Determine that disbursements are recorded in the proper fiscal year.
  - Clerical accuracy / confirm proper sales/use tax.

## Cash Disbursements/Non-Payroll Expenditures (Continued)

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

5. Haphazardly select fifteen purchasing card transactions from the Comptroller General's listing of purchasing card transactions for Fiscal Year 2018 and inspect supporting documentation to determine:

- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The cardholder is an authorized user.
- The purchase is authorized based on the cardholder's job title/position.
- The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting

### Finding

We observed one purchasing card transaction in which the user exceeded their single transaction limit without prior written approval.

### Management's Response

The purchasing card used for this particular transaction was set to \$500 for the single transaction limit by the agency's procurement office. This transaction of \$541 was approved verbally, but written approval was not obtained.

Upon review of the agency's internal policy, our procurement office has adopted additional measures to set all agency cardholder's single transaction limit to \$2,500 in line with the State's purchasing card policy set by the Division of Procurement Services Materials Management Office for the no compete small purchase.

### Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
8. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
9. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

We found no exceptions as a result of these procedures.

## Journal Entries and Transfers

10. Haphazardly select a total of fifteen journal entries and transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
  - Confirm transaction is properly approved.
  - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

## Reporting Packages

11. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
12. In addition to the procedure above, perform the following:
- Operating Leases Reporting Package  

Determine if amounts agree to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected transactions from Payments for Supplies; (2) Two haphazardly selected payments (for a total of eight) from each remaining rental payment classification (PO Box Rentals, Month to Month Rentals, Cancelable Leases, and Other Rental Charges).
  - Accounts Payable  

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Rptg -Prior Year Payables with Vendor and/or Department prepared records. Haphazardly select ten payables for inspection to determine proper reporting as a payable at year end.
  - Subsequent Events Questionnaire  

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records.

## Findings

### Operating Leases Reporting Package

Five selected contingent rental copier payments totaling \$11,212 were incorrectly classified as payments for supplies. As these payments were made on a per copy basis, these transactions should have been classified as contingent rentals.

### Accounts Payable Reporting Package

Six selected transactions were improperly classified on the accounts payable reporting package. As a result, contract retention payables were overstated by \$61,427, intergovernmental payables were understated by \$53,790, and vendor payables were understated by \$7,637.

## Reporting Packages (Continued)

### Findings (Continued)

#### Subsequent Events Reporting Package

In conjunction with the subsequent events questionnaire, the Department submitted an accounts payable worksheet. We observed two payables that were omitted from the worksheet causing an understatement in payables reported of \$1,675.

#### Management's Response

**Operating Leases:** We will ensure that staff are trained to understand and correctly recognize and classify contingent rental payments.

**Accounts Payable:** Through discussions with the Comptroller General's Office and the State Auditor's Office, our staff has obtained a clear understanding of intergovernmental payables, contract retention payables, and vendor payables.

**Subsequent Events:** The agency inadvertently left these payments off of the reporting package. The agency's current fiscal operations management team is instituting additional controls to review these packages to ensure their accuracy.

#### Governance, Risk and Compliance (GRC) SCEIS Module

13. Select all four controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of these procedures.

#### Appropriation Act

14. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
15. Confirm compliance with Department-specific provisos 81.1 through 81.9 by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

#### Capital Assets

16. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
17. Haphazardly select five capital asset retirements and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly removed in accordance with the CG's Reporting Policies and Procedures Manual.

We found no exceptions as a result of these procedures.

## **Division of Labor Transactions**

18. Haphazardly select five cash receipts transactions from the Division of Labor cost centers and inspect supporting documentation to:
- Agree transaction amount, date, payor, document number, and account classification to the general ledger.
  - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
  - Determine that receipts are recorded in the proper fiscal year
19. Haphazardly select five non-payroll disbursements from the Division of Labor cost centers and inspect supporting documentation to determine:
- Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
  - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
  - The transaction is a bona fide expenditure of the Department.
  - The transaction is properly classified in the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Determine that disbursements are recorded in the proper fiscal year.
  - Clerical accuracy/ confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

We found no exceptions as a result of these procedures.

## **Litigation / Attorney Payments**

20. Haphazardly select three transactions coded to the Legal Services general ledger account from the Yearend Reporting - Litigation Expense Report to inspect for proper account coding and that the transactions did not relate to attorney payments.
21. Haphazardly select two law firm transactions coded to the Attorney Fees general ledger account from the Yearend Reporting - Litigation Expense Report and determine if the Department obtained the proper approval from the South Carolina Attorney General's Office before engaging the law firm on a fee basis, and that amounts and service date ranges were charged within approved limits.

We found no exceptions as a result of these procedures.