

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 1, 2020

Ms. Emily Farr, Director
South Carolina Department of Labor, Licensing and Regulation
Columbia, South Carolina

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, 2019. 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 the South Carolina Department of Labor, Licensing and Regulation (R36)

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations in general ledger accounts 4160060000 (Professional & Occupational Application Fee) and 4480050000 (Sale of Documents) in the Earmarked Fund.
2. Haphazardly select five cash receipts transactions [excluding general ledger accounts 4160550000 (Professional & Occupational License Renewal Fee) and 4160060000 (Professional & Occupational Application Fee)] and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - 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.
3. Confirm that any Department fee increases are in accordance with Proviso 117.7 of the Appropriation Act.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations in general ledger account series 505- (Travel) in the Earmarked Fund, and general ledger account series 502- (Contractual Services) and 521- (Indirect Cost) in the Federal Fund.
5. Haphazardly select ten non-payroll disbursements and inspect supporting documentation to determine:
 - The 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.
 - 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

6. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for Fiscal Year 2019 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

We identified one transaction totaling \$4,472 for the leasing of State vehicles which was incorrectly coded to general ledger account 5021469322 (Vehicle Maintenance). Based on the nature of this transaction, it should have been coded to account 5051540000 (Leased Car – State Owned).

Management's Response

We agree with this finding. Department staff and management recognized the coding error at the beginning of the fiscal year and coded all subsequent charges correctly, but no journal entry was completed to correct the document coded incorrectly. Staff are currently coding these documents correctly and monitoring for correct general ledger usage.

Payroll

7. 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%.
8. 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%.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

9. Haphazardly select ten 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 this procedure.

Reporting Packages

10. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

Reporting Packages (Continued)

11. In addition to the procedure above, perform the following:

- Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records. Haphazardly select two receivables for inspection to determine proper reporting as a receivable at year end.

- Operating Leases Reporting Package

Determine if amounts agree to the 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 contingent rental payments; (2) five haphazardly selected payments for the remaining rental payment classifications (PO Box Rentals, Month to Month Rentals, Cancelable Leases, and Other Rental Charges). Also, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- 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 five 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. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported, and excluded from the original Accounts Payable Reporting Package submission.

Findings

Timely Submission of Reporting Package - We identified the master reporting package was submitted to the CG one business day late.

Operating Leases Reporting Package - Reporting/Classification – We identified four reported base charges coded to general ledger account 5040027000 (IT – Rent Copying Equipment), totaling \$40,086, were improperly reported as Contingent Rentals on Form 3.09.1. As a result, the Contingent Rentals were overstated by this amount.

Additionally, one lease with future minimum lease payments was excluded from the Operating Leases Future Minimum Payment Schedule (Form 3.09.1a). As a result, the future minimum lease payments were understated by \$59,273.

Account Coding – We also identified one copier lease transaction improperly accounted for in the SCEIS general ledger. The Department understated the copier's base charges (account 5040027000 – IT-Operating Lease-Copying Equipment Rental) by \$4,532 and overstated the copier's contingent rental charges (account 5040057000 – IT-Operating Lease-Contingent Rent Payments) by the same amount.

Reporting Packages (Continued)

Management's Response

Management agrees with the first finding. The Master Package was submitted one business day late. Moving forward, reporting packages will be submitted on the due date, if not earlier.

For the second finding, management agrees that charges coded to general ledger account 5040027000 should not be reported as contingent rentals on Form 3.09.01. Staff will properly report these amounts on future packages. Staff will include all amounts with future minimum leases on the schedule moving forward, with additional scrutiny given by management to ensure proper reporting.

Management agrees with the third finding concerning account coding for copier base and contingent charges. Management is putting mitigation measures in place to ensure that coding deficiencies such as this are less likely to occur in the future.

Office of Immigration Compliance

12. Haphazardly select five cash receipts transactions from the Office of Immigration Compliance cost centers and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - 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.

13. Haphazardly select five non-payroll disbursements from the Office of Immigration Compliance cost centers and inspect supporting documentation to determine:
 - The 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.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

We found no exceptions as a result of these procedures.

Assets and Personal Property

14. Haphazardly select two 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.

15. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Assets and Personal Property (Continued)

Finding

We identified one asset was capitalized for the incorrect amount due to the exclusion of installation charges as well as the miscalculation of sales tax. This asset was understated by a total of \$1,453 in the SCEIS asset system.

Management's Response

Management agrees with this finding. Staff has been notified of the error and has been instructed how to properly classify installation and sales tax charges associated with assets. Tools have been distributed to applicable staff to ensure that these installation and sales tax amounts are calculated and distributed to the relevant assets properly.

Appropriation Act / Department-Specific Provisos

16. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the Appropriation Act.
17. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

Status of Prior Findings

18. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Department has taken adequate corrective action on the prior year findings, with the exception of a similar finding related to the Operating Leases Reporting Package. See finding at **Reporting Packages**.