

South Carolina Department of Labor, Licensing, and Regulation

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2006

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

June 28, 2007

The Honorable Mark Sanford, Governor
and
Ms. Adrienne R. Youmans, Director
South Carolina Department of Labor, Licensing and Regulation
Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2006, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/cwc

Contents

Independent Accountants' Report on Applying Agreed-Upon Procedures	1-5
Accountants' Comments	
Section A – Violations of State Laws, Rules or Regulations.....	6
Section B – Status of Prior Findings.....	7
Management's Response	8

Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Department of Labor, Licensing, and Regulation (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor") solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2006, in the areas addressed. The Agency'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 25 randomly 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 5 randomly 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 at the subfund and object code level from all sources to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$29,000 – general fund, \$98,000 – earmarked fund, and \$23,000 – federal fund) and change of +/- 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.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 25 randomly 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 Agency, 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 5 randomly 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$29,000 – general fund, \$98,000 – earmarked fund, and \$23,000 – federal fund) and change of +/- 10 percent.

We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected 25 randomly 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, including employee payroll deductions, 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 2 randomly 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 inspected payroll transactions for 5 randomly selected new employees and 5 randomly selected 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 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 compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$29,000 – general fund, \$98,000 – earmarked fund, and \$23,000 – federal fund) and change of +/- 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 .5 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected 10 randomly selected recorded journal entries, 5 operating transfers, and 5 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.

We found no exceptions as a result of the procedures.

5. **General ledger and Subsidiary Ledgers**

- We inspected randomly selected entries and monthly totals in the subsidiary records of the Agency 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 selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2006, and inspected haphazardly selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected in the Comptroller General's reports to determine if accounts reconciled. 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 Agency'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 Agency's accounting records and/or in STARS.

Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

7. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of closing packages as of and for the year ended June 30, 2006, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the Schedule of Federal Financial Assistance for the year ended June 30, 2006, prepared by the Agency and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the Accountant's Comments section of our report on the Agency resulting from the engagement for the fiscal year ended June 30, 2005, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B 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 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, Members of the Board, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
June 1, 2007

ACCOUNTANTS' 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.

Untimely Deposits of Receipts

Proviso 72.1 of the 2006 State Appropriations Act specifies that all revenues must be remitted to the State Treasurer at least once each week. During our testing of cash receipts we revealed that a check was received by the Contractor's Licensing Board and deposited fourteen days after being received. In separate incidents, a check was received by the Board of Chiropractic and a check was received by the Real Estate Commission and both were deposited nine days after being received. We recommend that the Agency develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that receipts are deposited timely and in accordance with the Agency's policies and State Law.

Undocumented Dates of Deposit

During our testing of cash receipts we noted several receipts which the Agency could not provide documentation of the actual date the cash was received. A listing of the Agency Boards and amounts follow, respectively:

Agency Board	Dollar amount of Receipt
Board of Examiners for Professional Counselors, Marriage & Family	\$118.75
Board of Long Term Health Care Administrators	\$68.00
Safety Acts Board	\$1,750.00
Administration	\$11.60

As a result, we were not able to determine if these deposits were made in a timely manner in accordance with the 2006 State Appropriations Act. We recommend the Agency take steps to ensure that proper documentation for deposits is maintained.

Improper Completion of Reconciliations

During testing we noted several issues with monthly reconciliations. Reconciliations were not prepared for the revenue accounts in January, February, March, and April. The September revenue account reconciliation and the expenditure reconciliations for January, April and May were prepared in excess of thirty days after month end. The November expenditure reconciliation was reviewed in excess of thirty days after year end. The revenue reconciliations for August, October, June, and July and the expenditure reconciliations for April and June were not signed off as reviewed. The revenue reconciliation for December was not signed off by the preparer or reviewer. The revenue reconciliation for May was not dated. We recommend the

Agency closely monitor the reconciliation process to ensure all necessary reconciliations are completed and reviewed in a timely manner.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountants’ Comments Section of the Independent Accountants’ Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2005, and dated May 23, 2006. The following is the status of each prior year finding:

Prior Year Finding

Status

Untimely Deposit of Receipts	Similar finding in current year
Receipts Recorded in Wrong Fiscal Year	No similar findings in current year
Late Filing of Closing Packages	No similar findings in current year



South Carolina
Department of Labor, Licensing and Regulation



Division Of Administration

110 Centerview Drive
Post Office Box 11329
Columbia, SC 29211-1329
(803) 896-4300
FAX: (803) 896-4310

Mark Sanford
Governor

Adrienne Riggins Youmans
Director

June 26, 2007

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert,

Below is the South Carolina Department of Labor, Licensing and Regulation's response to comments listed in the audit report for the year ending June 30, 2006.

Untimely Deposit of Receipts

The agency agrees with auditors comments and recommendations and will comply.

Undocumented Dates of Deposits

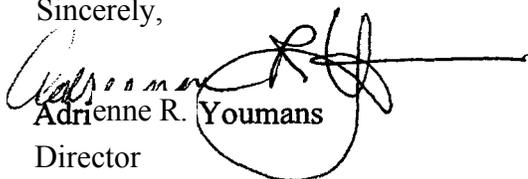
The agency agrees with auditors comments and recommendations and will comply.

Improper Completion of Reconciliation

By December 2005 LLR had deployed most of its professional and occupational licensing boards to ReLAES. The revenue from on-line credit card renewals is not received by the State Treasurer's Office at the same time nor in the same amounts or accounts as our internal ReLAES system. We were developing reports and adjusting posting times to get as close to the daily totals of the State Treasurer's office as we could in order to reconcile the revenue and cash balances on our books with the Comptroller General's month-end reports. As the year-end approached, we needed to ensure that the Agency reconciled with the Comptroller General books so we reconciled the yearly totals instead of monthly. New reports and procedures were completed and implemented in FY07 and we are reconciling monthly now.

If you have any questions or further comments, please call me at 896-4390.

Sincerely,


Adrienne R. Youmans
Director