

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 3, 2002

The Honorable Jim Hodges, Governor
and
Ms. Rita McKinney, Director
South Carolina Department of Labor, Licensing,
and Regulation
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Labor, Licensing, and Regulation, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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 using estimations and other procedures tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. Our findings as a result of these procedures are presented in Receipts in the Accountant's Comments section of this report.

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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 Department, and were paid in conformity with State 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. Our finding as a result of these procedures is presented in Disbursements in the Accountant's Comments section of this report.
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 selected new employees and those 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. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, all operating transfers between subfunds, and all 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 entry transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

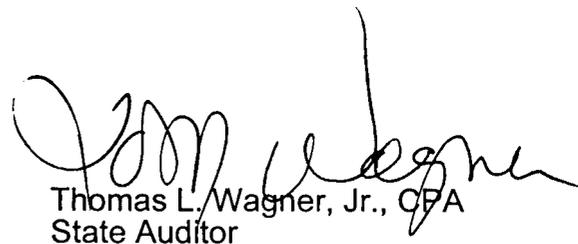
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5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were 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 Department for the year ended June 30, 2001, and tested selected reconciliations of balances in the Department'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 recalculated the amounts, agreed the applicable amounts to the Department'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 Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department'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 2001. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Department resulting from the engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures is/are presented in Receipts and Disbursements in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Department 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. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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 management of the South Carolina Department of Labor, Licensing, and Regulation 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

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS 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 conditions described in this section has/have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECEIPTS

Receipt Date

During our testing of receipts we noted seven instances out of 50 transactions tested in which the received date of receipts were not documented. The reason was due to various boards within the Department not properly documenting the day of receipt. The Department's policies and procedures require documentation of the received date of receipts. The boards document receipt date with a stamp of the actual day received on supporting documentation or the receipt. Four receipts to two boards were not stamped at all, two receipts to another board were stamped on the back, then copied front only and the copy kept on file. One receipt date from one board was not legible.

Large volume of receipts during renewal periods contributed to the lack of receipt date documentation. A similar finding regarding inadequate receipt date was cited in the prior year's report on applying agreed upon procedures.

We recommend the Department adhere to their established policies and procedures regarding the collection of revenues that require documentation of the received date of receipts. We also recommend, during peak renewal periods, adequate personnel are assigned to help ensure that the received date is stamped on all applications and or renewal forms.

Timeliness Of Deposits

We also noted nine instances in which receipts were not deposited in a timely manner. For four of the nine receipts, the deposits were not made in a timely manner due to one of the Department's boards being short staffed and going through job reclassifications. The large volume of receipts contributes to the delinquency of the five remaining receipts. A similar finding regarding timely deposits was cited in the prior year's report on applying agreed upon procedures.

Proviso 72.1 of Part 1B of the 2001 Appropriation Act requires that all revenues and other collections “be remitted to the State Treasurer at least once each week, when practical.”

We recommend the Department remit collections to the State Treasurer at least once each week. The Department should implement procedures to ensure timely deposits are made throughout the year.

Supporting Documentation

Also noted during of testing of receipts was one receipt that did not have documentation. One of the boards in the Department uses an imaging system to input applications and renewal forms. Data entry inputs an identification number for each application or renewal, then the imaging system files an electronic copy of the form with the identification number. Due to a data entry error of the applicant’s identification number the form posted under the wrong identity. The board was unable to locate the form. Therefore, we were not able to verify amounts, dates, and accounting codes to determine if the receipt was deposit timely in the proper fiscal year. A similar finding regarding inadequate documentation was cited in the prior year’s report on applying agreed upon procedures.

Sound accounting practices require a process of checks and balances. The Department should be able to detect and correct posting errors through a system of checks and balances.

We recommend the Department implement procedures to ensure error detection in a timely manner. The Department has policies in place to ensure document retention. We also recommend the Department evaluate this policy and ensure it is operating effectively.

Cash Receipts

On Friday, September 22, 2000, an employee of the Department noticed cash missing from an envelope in the office safe. The employee also noticed a few weeks earlier that the key to the safe was missing from her key ring. On Monday, September 25, 2000, it was discovered that cash put in the safe from Friday's work was also missing.

The Administration Division of the Department notified the South Carolina Department of Public Safety. A video camera was placed in the office and marked money was placed in the safe. On October 2, 2000, the cash was missing. After reviewing the tape and building access records, the thief was identified.

When confronted by officers from the South Carolina State Law Enforcement Division (SLED), the thief admitted guilt and turned over copies of records she had kept to show how much she needed to pay back. The amount stolen was determined to be \$1,415. She turned \$100 and keys to the safe and building over to the SLED officers, who in turn returned them to the Department.

The employee's employment was terminated on October 2, 2000. The former employee is to make restitution to the Department in the amount of \$1,315.

We recommend the Department ensure proper procedures are followed when a key or any type of access device to a safe is lost or stolen. The Department should have a specific policy notifying employees to alert proper officials when keys or access devices are lost or stolen. The notification should be immediate.

DISBURSEMENTS

Cancellation of Voucher and Supporting Documentation

During our testing of the purchase card disbursements, we noted seven were not properly cancelled out to prevent possible reuse. The statements are duplicated when received by the Department. After the duplication neither copy is marked copy or original. Then when the bill is paid both are not always cancelled.

This lack of consistency may cause confusion over what has been paid. Therefore the probability of duplicating payments and/or not making payments in a timely manner would then increase.

Effective internal controls require that vouchers and monthly statements be marked to prevent reuse. The Department's Cash Disbursements Procedures state that, "The green copy of the voucher with attached documentation is then placed in the unpaid file. When the checks are received from State Treasurer's Office, the tape total from the State Treasurer's Office is compared to the system total. If the totals match, a temporary employee pulls the vouchers and stamps them "Paid" and places them in the paid file."

We recommend the Department enforce their current policies and procedures regarding their disbursement vouchers and the supporting documentation that pertains to those vouchers, and they should also be consistent when applying their policies and procedures.

PAYROLL

In our testing of payroll transactions for employees who terminated their employment during fiscal year 2001, we noted that one was improperly paid. This resulted from the Department using the incorrect salary. The underpayment to the employee was \$201.12.

In our testing of payroll transactions for newly hired employees during fiscal year 2001, we noted that one was improperly paid. This resulted from oversight of payroll personnel at the Department ignoring the days worked and using the bi-monthly salary. The overpayment

to the employee was \$287.87

Effective internal controls includes procedures to ensure proper authorization, processing and recording of transactions. The Departments payroll procedures require that all transactions be verified after posting and after verification the payroll reports to be given to the appropriate person for approval. State Human Resources Regulation Section 19-702.02 D requires the agency to pay all employees in accordance with rates shown in the official Pay Schedule and the provisions of the Regulation. Also, section 8-11-30 of the South Carolina Code of Laws states, “. . . It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to . . . pay salaries or monies that are not due to State employees . . .”

We recommend the Department strictly follow procedures for calculating and verifying payroll to ensure that final salaries paid to all employees are calculated correctly. The payroll calculations should be reviewed by someone independent of the calculation. The Department, also, should pay the former employee the \$201.12 due, and attempt collection of the \$287.87 overpayment.

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 Independent Accountant's Report on Applying Agreed-Upon Procedures for the fiscal year ended June 30, 2000, and dated May 17, 2001. We determined that the Department has taken adequate corrective action on each of the findings except for the following: Receipts and Voucher Cancellation. Similar findings are reported in Receipts and Disbursements in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



LLR

SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING AND REGULATION

Jim Hodges
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November 14, 2002

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the South Carolina Department of Labor, Licensing and Regulation (LLR) for the fiscal year ended June 30, 2001. Recommendations made by your office are being implemented to ensure compliance with all applicable provisions of State Law.

LLR has made a concerted effort to improve the receipt of revenue process in our agency. An internal review of our offices' procedures was conducted and improvements were made. We also conducted random audits of deposits in offices that have experienced problems in the past to ensure procedures were being followed, supporting documentation was retained and funds were deposited in a timely manner.

The instances of employees being improperly paid have been corrected. A new form has been developed to ensure that calculations of pay are correct. All terminations and new hires for the year FY2002 are under review to ensure their accuracy. Payroll calculations continue to be reviewed by someone independent of the calculation.

I am authorizing release of the report.

Sincerely,


Deme Loftis
Deputy Director, Administration

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