
South Carolina Workers' Compensation Commission
Columbia, South Carolina
Independent Accountant's Report on Applying Agreed-Upon
Procedures for the year ended June 30, 2006

State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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September 19, 2007

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Workers' Compensation Commission
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Workers' Compensation Commission for the fiscal year ended June 30, 2006, was issued by Brown, CPA, LLC, 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/trb

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Independent Accountant's 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 the South Carolina Office of State Auditor and management of 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, 2006, in the areas addressed. The Commission 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 Commission'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 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 sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked fund to ensure that revenue was classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels \$33,000 – earmarked fund and ± 10 percent.
- We made inquiries of management pertaining to the Commission'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 were chosen systematically. We found no exceptions as a result of the procedures.

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 Commission's policies and procedures and State regulations, were bona fide disbursements of the South Carolina Workers' Compensation 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 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 and earmarked funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels \$31,000 – general fund and \$29,000 – earmarked fund and ± 10 percent.

The individual transactions selected were chosen systematically. 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, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Commission's policies and procedures and State regulations.
- We inspected 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 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 Commission'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 recorded payroll expenditures at the subfund and major object code 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 Commission's accounting records. The scope was based on agreed upon materiality levels \$31,000 – general fund and \$29,000 – 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 ± 15 percent to ensure that payroll expenditures were classified properly in the Commission's accounting records. The individual transactions selected were chosen systematically. We found no exceptions as a result of the procedures.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, 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 Commission'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. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the Workers' Compensation Commission 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 Commission's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on 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 Commission'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 Commission's accounting records and/or in STARS.

The reconciliations selected were chosen systematically. Our findings as a result of these procedures are presented in the Accountants' Comments section of this report.

7. Appropriation Act

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

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

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in the Accountants' 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, the South Carolina Office of the State Auditor, and the South Carolina Workers' Compensation Commission and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South Carolina
September 12, 2007

ACCOUNTANT'S COMMENTS

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 South Carolina Workers' Compensation Commission (the "Commission") require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

Attorney General Authorization

The Commission did not obtain approval from the Attorney General's Office before contracting with a private attorney. The Commission subsequently obtained approval from the Attorney General's Office, but not prior to receiving the legal services.

Section 11-35-1260 of the South Carolina Code of Laws as amended states, "No department or agency of the State government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

We recommend that the Commission ensure that personnel responsible for procuring goods and services are familiar with applicable State laws, rules and regulation.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

Capital Assets Closing Packages

The Commission's capital assets closing package contained the following errors.

1. A correction of a prior period error was reported in the capital asset summary form as an adjustment to the capital asset retirement amount instead of a net correction.
2. Depreciation expense totaling \$3,017 relating to assets retired in fiscal year 2005 was reported on the accumulated depreciation summary form.

The Comptroller General GAAP Closing Package manual specifies that the information contained in the closing packages be supported by the agency's books of account or other supporting documentation. The manual also requires that the closing package information be independently reviewed by someone familiar with the closing package instructions.

We recommend the Commission ensure that personnel completing and reviewing the closing packages be familiar with the closing package requirement. In addition we recommend that the preparer or reviewer contact the Comptroller General's Office whenever they have questions about the closing package requirements.

Reconciliations

The Commission did not timely prepare the fiscal year 2006 reconciliations. Additionally, not all monthly reconciliation files included monthly Comptroller General reports. Finally, some of the reconciliation files included documentation related to fiscal year 2005.

The Comptroller General's Policies and Procedures Manual (STARS Manual) requires agencies to perform reconciliations shortly after month-end in order to promptly correct errors discovered during the reconciliation process. It also requires agencies to maintain all supporting documentation for audit purposes.

We recommend the Commission develop and implement procedures to ensure that reconciliations are performed timely and that the reconciliations adequately document the reconciliation process, that is, demonstrate that the Commission's accounting records reconcile with the Comptroller General's records (STARS).

ATTACHMENT A



Workers' Compensation Commission

September 14, 2007

Mr. Matthew A. Brown, CPA, LLC
P.O. Box 3288
Irmo, South Carolina 29063

Dear Mr. Brown:

This letter is in response to the preliminary draft copy of the agreed-upon procedures review and letter of comments for the South Carolina Workers' Compensation Commission for the fiscal year ending June 30, 2006. The matter discussed herein was brought to the attention of senior management and other key staff on September 13, 2007. The matters discussed in the comment letter will be given special consideration and corrective measures will be taken.

The Workers' Compensation Commission works diligently to ensure that all State laws, rules and regulations are followed. We appreciate your willingness to work with the staff and your willingness to offer advice. We authorize the release of the report.

Sincerely,

A handwritten signature in blue ink that reads "Gary R. Thibault".

Gary R. Thibault
Executive Director

GRT:s