

South Carolina Department of Labor, Licensing, and Regulation

Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2005*

*State of South Carolina*



*Office of the State Auditor*

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June 19, 2006

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 agreed-upon procedures to the accounting records of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2005, 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/trb

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## Independent Accountants' Report on Applying Agreed-Upon Procedures

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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 Board of Trustees and management of the Department of Labor, Licensing, and Regulation (the "Agency") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the accounting records of the Agency for the fiscal year ended June 30, 2005, 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 State Auditor. 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. 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 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 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded 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 and tested internal controls over these transactions.
- 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 to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

We found no exceptions as a result of the procedures.

#### **6. Reconciliations**

- We obtained all purported monthly reconciliations prepared by the Agency for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Agency's accounting record 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 determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amount 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.

We found no exceptions as a result of the procedures.

#### **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Agency personnel and/or observation of Agency personnel performing their assigned duties, the Agency'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 2005.

We found no exceptions as a result of the procedures.

## **8. Closing Packages**

- We obtained copies of all purported closing packages as of and for the year ended June 30, 2005, 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; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

## **9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, 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; if the amounts were reasonable; and if they agreed with the supporting work-papers 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 findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from our engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

We found no exceptions as a result of the procedures.

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 areas, 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 and of the management of the South Carolina Department of Labor, Licensing, and Regulation, 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  
May 23, 2006

## **Accountants' Comments**

### **Section A – Weakness Not Considered Material**

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 in place. Management of the entity is responsible for establishing internal controls. A material weakness is a condition in which the design or operation of one 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 below have been identified as a weakness subject to correction or improvement but it is not considered a material weakness or a violation of State Laws, Rules, or Regulations.

#### **Untimely Deposits of Receipts**

Our testing of cash receipts revealed that a check was received by the Board of Pharmacy and deposited fifteen days after being received. Also, another check was received by the Board of Dentistry and was deposited twelve days after being received. As a result, these receipts were not deposited within seven calendar days of receipt by the Agency as required by the 2005 Appropriation Act.

#### **Receipts Recorded in the Wrong Fiscal Year**

Our cutoff test of receipts revealed that there were five receipts received on June 29<sup>th</sup> and June 30<sup>th</sup> of 2005 by the Board of Barber Examiners, that were recorded by the Agency as fiscal year 2006 revenue. There was also a receipt received on June 30<sup>th</sup> of 2004 by the Auctioneers Commission that was recorded by the Agency as fiscal year 2005 revenue. This is in violation of a directive issued by the Office of the State Treasurer which stipulates that each agency is to pay close attention to year end receipts to ensure that each is recorded in the appropriate fiscal year.

#### **Late Filing of Closing Packages**

Our test of the Grant/Contribution Receivable Closing Package, and Capital Asset Closing Package revealed that both closing packages were due on September 30<sup>th</sup>, 2005, but were not submitted until October 4<sup>th</sup>, 2005. As a result, these closing packages were submitted late.

### **Section B – Status of Prior Findings**

There was one finding for the year ended June 30, 2004, the last year for which an agreed-upon procedure report was issued for the Agency. This finding pertained to journal entries. During the testing of journal entries in 2004, it was determined that the majority of journal entries did not have evidence of approval prior to posting to the computer system. Based upon our follow-up review of the prior year finding, the Agency corrected this issue in 2005.





## South Carolina Department of Labor, Licensing and Regulation

Mark Sanford  
Governor

### Division Of Administration

Adrienne Riggins Youmans  
Director  
June 9, 2006

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

Dear Mr. Wagner:

We have reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the SC Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2005. I am authorizing the release of the report. The agency response to the auditor's comments is as follows:

#### **Untimely Deposit of Receipts**

The agency agrees on the importance of depositing receipts within seven calendar days of receipt. However, during renewals or periods when boards are short-staffed, this is hard to achieve. The agency continues to look for ways to improve this process and is currently installing hardware and software that will allow boards to electronically transfer checks and money orders to the bank instead of hand-delivering deposits.

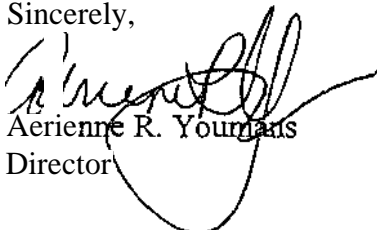
#### **Receipts Recorded in Wrong Fiscal Year**

The agency has historically recorded deposits received in Finance after July 1st as FM01- deposits regardless of when it was deposited in the bank, unless it was a reimbursement of expenditures. Since this revenue is collected by the POL Boards and carried forward automatically into the new fiscal year and because the net effect on total revenue collected is minimal, the agency did not see the need to record as FM12 or FM13. The agency has been audited several times in the twelve years since restructuring and this procedure has never been questioned. The agency will try at year-end in FY06 and in future years to implement this change.

#### **Late Filing of Closing Packages**

The agency agrees on the importance of filing closing packages by the required date and will make every effort to ensure that occurs in the future.

Sincerely,



Adrienne R. Youmans  
Director