

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

COLUMBIA, SOUTH CAROLINA

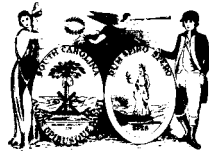
STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 18, 2003

The Honorable Mark Sanford, Governor
and
Ms. Adrienne R. Youmans, 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 (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, in the areas addressed. The Department'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. 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. The individual transactions selected for testing were chosen randomly. 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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April 18, 2003

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; if the acquired goods and/or services were procured in accordance with applicable 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. We found no exceptions as a result of the procedures.
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 finding as a result of these procedures is 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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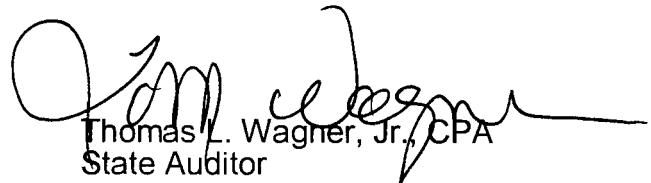
5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal 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, 2002, 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 determined if they were timely performed and properly documented in accordance with State regulations, 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 2002. 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 State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Receipts and Payroll 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, 2002, 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.

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10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, 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.

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 Department 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 have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECEIPTS

Supporting Documentation

During our cut-off testing of cash receipts, we noted one instance where the Board could not find the supporting documentation relating to a deposit. The Barbers Examiner Board assigns all cash receipts a control number. When preparing the deposit package, the Barber Board includes this control number as a means to trace back to the individual transaction. The supporting documentation for the control number we selected could not be located; therefore, we could not determine when the cash was received. This results from the Board not properly filing receipt documentation. The inability to locate the supporting documentation lead to the auditor's inability to determine if the receipts was deposited in a timely manner and recorded in the proper fiscal year as required by State Law. Also, the board is not in compliance with the Department's internal procedures.

The Department's procedures for collecting revenue states that ". . . documentation must be retained by the board in accordance with the Records Management System". Effective internal controls and management practices require that supporting documentation be properly maintained and safeguarded.

We recommend that the Board adhere to the Department's established policies and procedures. We also recommend that each Board properly maintain and secure documentation for audit purposes.

Timeliness of Deposit

During our testing of cash receipts, we noted one instance in which the receipt was not deposited in a timely manner. The receipt was held for 64 days before it was deposited. The Board of Cosmetology held the application fee because the application was incomplete. It was a reciprocity license application and the board was waiting on a transcript from an out-of-state Cosmetology School.

The Board held the application fee instead of depositing the fee as described by Agency Procedures. This is a direct violation of agency procedures and of State Law. Also, the opportunity for theft increases when cash receipts are left waiting for deposit. Proviso 72.1 of the FY 2002 Appropriation Act states that all revenues and other collections" . . . be remitted to the State Treasurer at least once each week, when practical."

We recommend that the Department remit collections to the State Treasurer at least once each week. The Board should also adhere to the Department's established policies regarding collecting and processing revenue in a timely manner.

PAYROLL

During our test work with employees who terminated their employment, we noted that two employees were overpaid. For one of the employees there were three days that the employee could have worked during the pay period. However, the employee only worked two days and was in leave without pay (LWOP) status one of the three days. However, the employee was paid for working three days. This miscalculation resulted in an overpayment of \$115.66. The second employee was overpaid in the two pay periods prior to terminating employment. The employee was in LWOP status; however, the employee nor his supervisor notified the Payroll or Personnel Divisions until after the payroll was submitted. The LWOP overpayment was to be deducted from his next paycheck. However, the employee quit and the agency was not able to recoup the entire overpayment. The gross amount of overpayment to still be collected was \$191.79. The agency informed the former employee of the overpayment and is attempting to collect.

The cause of the first overpayment was a calculation error. The cause of the second overpayment was a failure by the employee's supervisor to notify the Personnel division of LWOP in a timely manner. As a result, these two employees were overpaid. These overpayments violate State Law. Section 8-11-30 of the South Carolina Code of Laws states that "it is unlawful for a person to receive a salary from the State or any of its departments which it is not due . . ."

We recommend that the Department attempt to recover the overpayment from the employees. The Department should also develop procedures relating to the timely reporting of leave to the Personnel and Payroll areas to ensure that employees are only paid what they are due.

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 State Auditor's Report on the Department for the fiscal year ended June 30, 2001, and dated July 3, 2002. We determined that the Department has taken adequate corrective action on each of the findings except for the following: Receipts and Payroll. Similar findings are reported in Receipts and Payroll in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



South Carolina Department of Labor, Licensing and Regulation

Mark Sanford
Governor

Adrienne Riggins Youmans
Director

Division Of Administration

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June 9, 2003

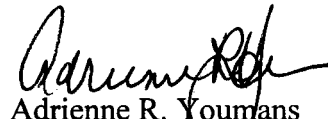
Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, S.C. 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2002. Recommendations made by the Office of the State Auditor are being implemented to ensure compliance with all applicable provisions of State Law.

I am authorizing the release of the report.

Sincerely,



Adrienne R. Youmans
Director

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