

South Carolina Department of Labor, Licensing and Regulation

Columbia, South Carolina

Report on Agreed-Upon Procedures

for the year ended June 30, 2000

State of South Carolina



Office of the State Auditor

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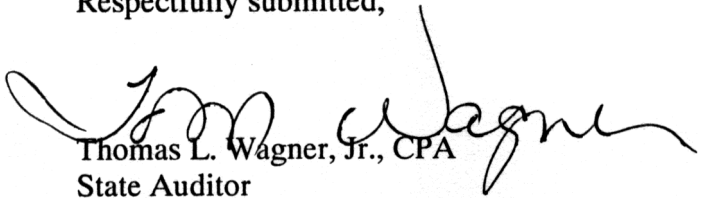
May 21, 2001

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

This revised 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, 2000, replaces the report dated February 23, 2001, 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,




Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

Contents

Independent Accountants' Report on Applying Agreed-Upon Procedures.....	1-4
Accountants' Comments	5-8
Status of Prior Findings	9
Management's Response	10

S C O T T  M C E L V E E N L.L.P.

Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
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") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with the 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 the 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 appropriation to those of the prior year to determine 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 Comment 5 of the Accountants' 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 STARS as reflected on the Comptroller General's 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 findings as a result of these procedures are presented in Comment 6 of the Accountants' 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 STARS as reflected on the Comptroller General's reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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 as Comments 1 and 2 in the Accountants' Comments section of this report.
4. We tested 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. The journal entries, operating transfers and appropriation transfers selected for testing were chosen randomly. Our finding as a result of these procedures is presented as Comment 3 in the Accountants' Comments section of this report.

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, 2000, 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 the 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 applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. Our findings as a result of these procedures are presented in Comments 3, 4 and 5 in the Accountants' Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1999 to determine if adequate corrective action had been taken. Our findings as a result of these procedures are presented in the Status of Prior Findings section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, 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. Our findings as a result of these procedures are presented in Comment 4 of the Accountants' Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, 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, 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, South Carolina Office of the State Auditor and the management of the Department 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 17, 2001

Accountants' Comments

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We noted the following matters during our engagement:

1. HOURLY PAY RATES

In our payroll test of hourly employees, we noted 4 out of 5 instances in which the hourly rate paid to the employees did not agree to the rate approved by the agency on the Employee Profile. In all instances we noted that the employees were instructors at the fire academy. These instructors are paid different hourly rates based on the course they are teaching. However, the Employee Profile reflects the minimum wage at the employee's date of hire indicating that rate is the approved rate for that position. The only documentation indicating the hourly rate that the instructor should be paid is assigned by the supervisor on the employee's time card.

The Employee Profile form is completed by the human resource department detailing specific compensation information about particular positions. The Employee Profile indicates such information as the minimum and maximum pay rate for the job, the funding source, and the salary history of the employee holding the job. An agency's internal controls should include written policies and procedures for adequate documentation of transactions and for proper recording and reporting of transactions. Proper documentation of hourly pay rates for instructions by course taught should be maintained to avoid errors in assigning hourly rates to instructors.

We recommend that the Department add a note to the Employee Personnel File, which contains the Employee Profile, of fire academy instructors indicating that their hourly rate is determined by the course they are teaching each pay period and that a list of the corresponding courses and pay rates be available. We also recommend noting the course on the employee's time sheet to ensure that the pay rate assigned by the supervisor corresponds to the appropriate rate for the course.

2. INCORRECT PAYROLL SUBFUND CODING

In our payroll testing of salaried employees, we noted 2 out of 20 instances in which subfunds were incorrectly coded when compared to the Employee Profile. The Employee Profiles indicated that the salaries were to be funded by State General Fund appropriations. However, the Comptroller General's payroll register and the agency's internal payroll reports indicate that the salaries were paid from other revenue sources. For one of the instances noted, we discovered that the funding source was correctly stated on the Employee Profile and incorrectly reflected in the Comptroller General and agency's payroll reports. For the other instance, the funding source had been changed on the Employee Profile in 1997 to indicate that the funding source was state; however, the agency's payroll department believes that the other revenue source funding indicated on the Comptroller General and agency's payroll reports is correct.

2. INCORRECT PAYROLL SUBFUND CODING (CONTINUED)

Employee salaries are approved for funding from one or more specific sources: federal, state or other, as indicated on the Employee Profile. If an employee's pay is coded with an incorrect subfund, their pay will be funded from sources that have not been approved for that purpose. The agency's internal controls include policies and procedures that require all payroll vouchers to be verified as to the gross payroll amount, withholding amounts, and the coding source before authorization for processing. To assist in this process, a Human Resource (HR) Transaction Report indicating all personnel changes to the Employee Profile, in addition to any other payroll change initiated by the HR department, is forwarded to the payroll department for keying into the payroll system. When payroll is processed, a discrepancy report that indicates any differences between the HR system and the actual payroll is printed.

We recommend that the Department implement procedures to ensure that any HR Transaction Reports received by the payroll department are thoroughly reviewed and potential discrepancies brought to the attention of the HR department. We also recommend that the Department follow agency procedures when approving payroll vouchers by reviewing the discrepancy report each pay period to ensure that the coding agrees between the HR system and the agency's payroll system.

3. TRANSFERS

In our testing of transfers, we noted 5 out of 10 instances in which appropriate supporting documentation for appropriation transfers was not provided.

STARS Manual section 2.1.3.62, item 12 states that the agency should enter a brief statement indicating reason for transfer request. In addition, section 2.1.3.10 (page 2) states that "All STARS input forms submitted for processing must be supported by adequate documentation."

We recommend that the Department maintain adequate supporting documentation to meet the requirements of the STARS Manual, of an effective internal control system, and of a complete accounting system.

4. CLOSING PACKAGES

The State Comptroller General uses financial information from agency-prepared closing packages in preparing the State's financial statements in accordance with generally accepted accounting principles (GAAP). In our testing of the Accounts Payable Closing Package, we noted two instances in which amounts were reported to the Comptroller General's Office using an incorrect GAAP Fund Code.

4. CLOSING PACKAGES (CONTINUED)

Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) requires accurate closing packages and completion of the reviewer's checklist for each closing package. Further, Section 1.8 of the GAAP Manual explains, "An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. It states that an effective review of each completed closing package and the underlying working papers includes tracing all amounts to the agency's accounting records, closing package working papers, and source documents and verification of all mathematical computations."

We recommend that the Department follow the GAAP Manual procedures to ensure that personnel responsible for completing and reviewing closing packages are familiar with the closing package instructions and guidelines. The Department should make accurate closing package preparation a high priority by reviewing and verifying all documentation used in the preparation of the closing packages.

5. RECEIPTS

We selected 25 deposit transactions for testing. Generally, each deposit was made up of multiple cash receipts. We noted the following during our review of cash receipts:

- A. For 1 of our 25 selections, there was no supporting documentation. Therefore, we were not able to trace amounts, dates, receipt numbers, and/or accounting codes from the cash receipt to the general ledger. The lack of supporting documentation was a result of the Board of Cosmetology destroying all of their 1999 calendar year supporting documentation. A similar finding regarding inadequate documentation was cited in the prior year's report on applying agreed upon procedures.
- B. For 5 of our 25 selections, receipts were not deposited in a timely manner. For 2 of those 5 receipts, the deposits were not made in a timely manner due to a mandatory computer system switch, which resulted in the Real Estate and Building Board falling behind on their processing of licenses. The cause of the remaining 3 of the 5 untimely deposits is unknown. A similar finding regarding timely deposits was cited in the prior year's report on applying agreed upon procedures.
- C. For 3 of our 25 selections, we were unable to test for timely deposits because the receipt package was either missing the bank deposit slip, the receipt date was not indicated on supporting documentation or the supporting documentation consisted of copies of scanned documentation in which the receipt date was not legible due to the quality of the scanner or darkness of the ink.

5. RECEIPTS (CONTINUED)

An effective internal control system requires the agency to prepare and retain complete, accurate, legible, and adequate supporting documentation for each transaction. That documentation should support the way in which the transaction was posted, as well as, indicate the date received, description, fund and revenue object coding, and amount of the receipt. Proper accounting procedures require that all entries be reviewed for adequate supporting documentation and proper amounts, coding and dates before the transactions are recorded in the Department's accounting system. In addition, State Law requires timely deposit of receipts under the annual Appropriation Act proviso. This requirement is included in Proviso 72.1 of the 1999 - 2000 Act.

We recommend that the Department establish written guidelines regarding the types of receipt documentation needed for each type of routine transaction. The guidelines should indicate that the supporting documentation include, but not be limited to, the date received, description, fund and revenue object coding and amount of the receipt. The guidelines should also indicate the time frame for retention of supporting documentation and that the supporting documentation be legible. We also recommend that the Department take steps to ensure that adequate training is provided for employees who prepare and code receipts and those responsible for reviewing and approving receipts and revenue transactions. In addition, the department should ensure that receipts are being deposited within the timely deposit State Law requirement.

6. VOUCHER CANCELLATION

In 1 of our 25 selections in our test of non-payroll disbursements, the disbursement voucher was not cancelled to prevent re-entry and duplicate payment. In addition, we found in 14 of our 25 selections that the supporting documentation was not cancelled to prevent duplicate payment. Similar findings were cited in the prior year's report on applying agreed upon procedures.

Effective internal controls over disbursements require that disbursement vouchers and supporting documentation be properly cancelled.

We recommend that the Department establish written guidelines regarding disbursement vouchers. The guidelines should indicate, but not be limited to, the types of supporting documentation that are appropriate, and the appropriate method for canceling invoices and supporting documentation. We recommend that vouchers, invoices and all other supporting documentation be stamped paid or marked in a manner to prevent reuse, reprocessing and/or duplicate payment. We also recommend that the Department take measures to ensure that personnel understand the importance of canceling paid vouchers and supporting documentation. We further recommend that the disbursement vouchers be reviewed by appropriate Department personnel prior to filing to ensure vouchers and supporting documentation are properly cancelled.

Status of Prior Findings

Status of Prior Findings

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1999, dated June 1, 2000. We determined that the Department has taken adequate corrective action on each of the findings in its fiscal year 1999 report except for matters discussed in Comments 5 and 6 of the Accountants' Comments section of this report.

Management's Response



LLR

SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING AND REGULATION

Jim Hodges
Governor
Rita M. McKinney
Director

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March 28, 2001

Mr. Randy Scott, CPA
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Dear Mr. Scott:

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, 2000. Recommendations made by Scott McElveen are being implemented to ensure compliance with all applicable provisions of State Law.

I am authorizing release of the report.

Sincerely,

A handwritten signature in cursive script, reading "Deme Loftis", is written over the typed name.

Deme Loftis
Deputy Director, Administration