

South Carolina Department of Labor, Licensing, and Regulation

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2007

State of South Carolina



Office of the State Auditor

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June 30, 2008

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 certain agreed-upon procedures to the accounting records of the South Carolina Department of Labor, Licensing and Regulation for the fiscal year ended June 30, 2007, 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/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Members of the Board and management of the South Carolina Department of Labor, Licensing, and Regulation (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2007, 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 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 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations.
- We inspected 10 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 remittances 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 and federal funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$110,000 – earmarked fund and \$24,000 – federal fund) and +/- 10 percent.

- We made inquiries of management pertaining to the Agency'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 selected were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations, 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.
- We inspected 10 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, earmarked, and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$29,000 – general fund, \$110,000 – earmarked fund, and \$24,000 – federal fund) and +/- 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected 25 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 Agency's policies and procedures and State regulations.
- We inspected 5 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 5 selected new employees and 5 who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Agency'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 payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$29,000 – general fund, \$110,000 – earmarked fund, and \$24,000 – federal 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 +/- 5% percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

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.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 10 selected recorded journal entries, all operating transfers, and 9 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 Agency'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 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 selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

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

6. Reconciliations

- We obtained monthly reconciliations prepared by the Agency for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency's accounting records and/or in STARS.

The reconciliations selected were chosen judgmentally. Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

7. Appropriation Act

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

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of closing packages as of and for the year ended June 30, 2007, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, 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 and; if the amounts agreed with the supporting workpapers 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 Accountant's Comments section of our report on the Agency resulting from the engagement for the fiscal year ended June 30, 2006, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B in the Accountant's 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, Members of the Board, management, 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
June 26, 2008

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES or REGULATIONS

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 Agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules, or Regulations occurred. The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

Untimely Deposits of Receipts

Proviso 72.1 of the 2007 State Appropriations Act specifies that all revenues must be remitted to the State Treasurer at least once each week. During our testing of cash receipts we determined that a check was received for Elevators and Amusement Rides revenue and deposited fourteen days after being received. We recommend that the Agency develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that receipts are deposited timely and in accordance with the Agency's policies and State Law.

Improper Completion of Reconciliations

We detected the following exceptions as a result of the procedures performed on the Agency's selected monthly reconciliations.

- Federal revenue reconciliations were not formally prepared for the months of August 2006, December 2006, and April 2007.
- The April 2007 revenue reconciliation for sub-fund 3135 showed certain reconciling items that should have also been reflected in the sub-fund 3035 revenue reconciliation. These items were not properly reflected on the sub-fund 3035 revenue reconciliation.
- Certain expenditure reconciliations were not formally documented for the selected months of November 2006 and July 2007.
- The March 2007 expenditure reconciliation contained year to date expenditure variances that were not reconciled.
- The July 2006 expenditure reconciliation did not contain the signature of the preparer or the date that the expenditure reconciliation was prepared.
- The cash reconciliations for the months of September 2006, February 2007, and May 2007 were not signed or dated by either the preparer or the reviewer.

The Comptroller General's Office STARS Policy and Procedures Manual requires the Agency to document reconciliations of accounting records at least monthly. The reconciliations must be signed and dated by the preparer, as well as reviewed and approved by an appropriate Agency official other than the preparer. We recommend that the Agency review their monthly reconciliation process to ensure that they are acting in accordance with the regulations of the State of South Carolina.

SECTION B- OTHER COMMENTS

Payroll Tax Withholding Documentation

During our testing of twenty five payroll disbursements, we noted four employee IRS Form W-4 documents were not completed by the employee. The forms were missing data such as signature, address, number of allowances claimed, or filing status. Also, we noted one employee's IRS Form W-4 did not match the payroll tax withholding rate in the payroll system as determined by filing status. Currently, the Agency requires each employee to verify miscellaneous payroll information each January, but does not include verifying the payroll tax withholding rate. We recommend the Agency develop and implement internal controls and procedures that ensure the federal tax withholding rate per the payroll system matches the IRS Form W-4 on file for all employees.

Employee Eligibility Documentation

During our testing of twenty five payroll disbursements, we noted two employee's Form I-9 could not be located. All employees should have a completed Form I-9 as required by the Department of Homeland Security. Employers must retain a completed Form I-9 for three years after the date of hire or one year after the date employment ends, whichever is later for all employees hired after November 6, 1986. Also, in accordance with the South Carolina Department of Archives and History, all information included in personnel files is to be retained 15 years after termination of employment. We recommend the Agency develop and implement internal controls and procedures that ensure the Agency has a completed Form I-9 on file for all employees.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountants' Comments Section of the Independent Accountants' Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2006, and dated June 1, 2007. The following is the status of each prior year finding:

Prior Year Finding

Status

Undocumented Dates of Deposit
Untimely Deposits of Receipts
Improper Completion of Reconciliations

No similar findings in current year
Similar finding in current year
Similar finding in current year

MANAGEMENT'S RESPONSE



Mark Sanford
Governor

Adrienne Riggins Youmans
Director

South Carolina
Department of Labor, Licensing and Regulation



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June 26, 2008

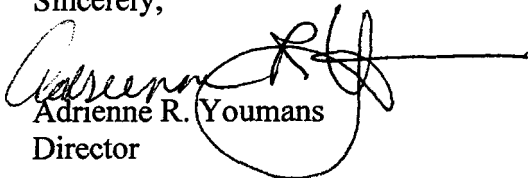
Mr. Richard H. Gilbert Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, S.C. 29201

Dear Mr. Gilbert:

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, 2007. The agency agrees with the auditor's comments and will implement recommendations made in the report.

I am authorizing the release of the report.

Sincerely,


Adrienne R. Youmans
Director