

**South Carolina Department of
Labor, Licensing, and Regulation**

Columbia, South Carolina

State Auditor's Report

June 30, 2020



Independent Accountant's Report on Applying Agreed-Upon Procedures

August 25, 2021

Ms. Emily Farr, Director
South Carolina Department of Labor, Licensing and Regulation
Columbia, South Carolina

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Department of Labor, Licensing and Regulation (the Department) for the fiscal year ended June 30, 2020. The Department's management is responsible for the systems, processes and behaviors related to financial activity.

The Department's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the Department's management. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

We are required to be independent of the Department and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the management of the Department, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed - Upon Procedures Related to the South Carolina Department of Labor, Licensing and Regulation (R36)

Cash Receipts/Revenue

1. Haphazardly select five cash receipts transactions and inspect supporting documentation to determine:
 - Transaction agrees with the general ledger as to amount, date, payor, and account classification.
 - Receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2020 Appropriations Act.
 - Both revenue collections and amounts charged are properly authorized by law.
 - Receipts are recorded in the proper fiscal year.

Finding

A \$2,021 refund of grant funds disbursed by the Department as an allocation earlier in fiscal year 2020 was misclassified in the general ledger as a refund of a prior year expenditure rather than as a credit to the applicable allocation expenditure account.

Management Response

Management agrees with this finding. A correcting journal entry should have been completed to reclassify this refund. Refunds of the same nature that were deposited after this have been classified correctly and staff have been trained as to how and why documents should be classified in the appropriate manner.

Cash Disbursements/Non-Payroll Expenditures

2. Haphazardly select ten non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures and invoice(s) agree(s) with general ledger as to vendor, amount, and date.
 - All supporting documents and approvals are present and agree with the invoice.
 - The transaction is an actual expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement is recorded in the proper fiscal year.
 - Clerical accuracy.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are in accordance with the requirements of the program, incurred during the approved grant period, and applied uniformly to both federally assisted and other activities of the recipient.
3. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2020 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

4. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll and that their last paycheck, including any leave pay out, was properly calculated.
5. Haphazardly select five employees hired during the fiscal year to determine if their start dates were added to the payroll correctly and that their first paycheck was properly calculated.
6. For staff attorneys hired during fiscal year 2020 confirm compliance with South Carolina Code of Laws Section 1-7-160.

We found no exceptions as a result of the procedures.

Journal Entries

7. Haphazardly select five journal entries and inspect supporting documentation to determine:
 - Postings in the general ledger agree to supporting documentation.
 - Transaction is properly approved.
 - The purpose of the transaction.

We found no exceptions as a result of the procedure.

Reporting Packages

8. Inspect fiscal year end reporting packages submitted to the CG. Compare responses in the Master Reporting Package Checklist and any required supplemental information to year end reporting packages submitted to the CG, the South Carolina Enterprise Information System (SCEIS) and Department prepared records. Additionally, compare the dates submitted to the due dates established by the CG's Reporting Policies and Procedures Manual.
9. In addition to the procedure above, perform the following:

- Operating Leases Reporting Package

Agree amounts to the SCEIS general ledger, SCEIS *Yearend Reporting Operating Lease Expense with Vendor* report and Department prepared records. Based on inspection of invoices and lease agreements, determine that rental payments were properly classified, coded, and calculated for five haphazardly selected contingent rental payments and for a total of five haphazardly selected payments included in the remaining rental payment classifications (post office box rentals, month to month rentals, cancelable leases, and other rental charges not classified above). In addition, determine if the effective date, expiration date, and future minimum payment amounts were properly calculated and reported for all leases reported on the future minimum payment schedule.

- Subsequent Events Questionnaire

Compare responses and any required supplemental information to the SCEIS general ledger and Department prepared records. In addition, haphazardly select five payables from the subsequent events accounts payable worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original accounts payable reporting package submission.

Reporting Packages (Continued)

Findings

Operating Leases Reporting Package – The future minimum lease payments for one lease were understated by \$1,416.

Subsequent Events Questionnaire – The Department reported the amounts from the fiscal year 2019 subsequent events accounts payable worksheet on the fiscal year 2020 worksheet resulting in the following misstatements: general funds were understated by \$932, earmarked funds were overstated by \$2,463, and federal funds were understated by \$1,461.

Management Response

Management agrees with these findings. Mitigation measures have already been put in place and management will coordinate with staff who complete these packages regarding the proper methods of compiling and reviewing for reporting accuracy, including the proper way to run the reports necessary to complete the package and ensuring the reporting dates are correct.

Assets and Personal Property

10. Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine that each asset was properly capitalized and posted to the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
11. Haphazardly select five capital asset retirements and inspect supporting documentation to determine that each asset was approved for removal and removed from the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
12. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Findings

Capital Asset Acquisition – Due to the improper allocation of labor, freight, and sales tax, one capital asset was overstated by \$369.

Capital Asset Retirements – A capital asset valued at \$151,398 was removed from the general ledger in June 2020 but was still in the Department's possession as of July 2021. Additionally, due to a lack of supporting documentation, we were unable to determine if four capital asset retirements totaling \$61,053 were approved for removal or were removed from the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.

Management Response

Management agrees with these findings.

Capital Asset Acquisition – While the asset was overstated, the other capital asset invoiced at the same time was understated by the same amount. The net effect was zero and all costs that should've been capitalized were, but the costs were not attributed to each asset correctly and we understand that this could impact financial reporting in future periods. Staff has now been trained how to properly allocate costs relating to assets.

Assets and Personal Property

Management Response (Continued)

Capital Asset Retirements – The first asset mentioned was not in use and management determined it needed to be sent to surplus. Due to issues created by working remotely, the asset was removed from the ledger before it was taken by surplus property. The Department's normal asset retirement procedures would typically prevent this from happening. As for the other four capital assets mentioned, these assets were disposed of before current staff responsible for inventory at the State Fire Academy had been hired, but management has no reason to believe that the items were not disposed of properly. Procedures have changed with new staff at the State Fire Academy and Department administrative services, with all actions regarding capital assets now flowing through Department finance/procurement to ensure that proper procedures are followed and to ensure record continuity.

Non-Recurring Revenue Proviso 118.16

13. Through inquiry of management and inspection of supporting documentation, determine that the Department complied with Proviso 118.16 of the fiscal year 2020 Appropriations Act regarding nonrecurring revenue received during the fiscal year.

We found no exceptions as a result of the procedure.

Department-Specific Provisos

14. Determine compliance with Department-specific state provisos 81.2 (Real Estate – Special Account), 81.4 (Fire Marshal Fallen Firefighters Memorial), 81.5 (Firefighter Mobilization Project), and 81.8 (Immigration Bill Funding Report) by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedure.

Status of Prior Findings

15. Through inquiry of management and inspection of supporting documentation, determine the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Department has taken adequate corrective action on the findings reported during the prior fiscal year engagement except for the **Operating Leases Reporting Package** and **Capital Asset Acquisition** findings reported above.