

**SOUTH CAROLINA
WORKERS' COMPENSATION COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report On Applying Agreed-Upon Procedures

February 12, 2018

Members of the South Carolina Workers' Compensation Commission
State of South Carolina
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Workers' Compensation Commission (the Commission), solely to assist you in evaluating the systems, processes and behaviors of the Commission for the fiscal year ended June 30, 2017. The Commission's management is responsible for the systems, processes and behaviors. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted 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, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Commission. Accordingly, we do not express 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 specified parties. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

Members of the South Carolina Workers' Compensation Commission
State of South Carolina
February 12, 2018

This report is intended solely for the information and use of the governing body and management of the Commission 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 Workers' Compensation Commission
(R08)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations greater than or equal to \$3,500 and 10% for the General Fund, \$250,000 and 10% for the Earmarked Fund, and \$130,000 and 10% for the Restricted Fund.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select eight cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations greater than or equal to \$20,000 and 10% for the General Fund, \$50,000 and 10% for the Earmarked Fund, and \$100,000 and 10% for the Restricted Fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Commission procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Commission procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Commission, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.
6. Randomly select fourteen non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations greater than or equal to \$20,000 and 10% for the General Fund, \$50,000 and 10% for the Earmarked Fund, and \$100,000 and 10% for the Restricted Fund.
8. Randomly select seven employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Commission.
 - Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
For Hourly Employees:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Commission.
 - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
9. Randomly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
10. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Commission's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Commission's policies and procedures, that the employee's last pay check was properly calculated, and that the employee's leave payout was properly calculated in accordance with applicable State law.
12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of +/- 10%.
13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of the procedures.

Journal Entries

14. Randomly select seven journal entries for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with Commission-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect the Master Reporting Package Checklist to determine the appropriation reporting packages were prepared and submitted by the due date established by CG's Reporting Policies and Procedures Manual.

18. In addition to the procedure above, we will perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Commission prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Commission prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Payments for Supplies and Other Billing Charges and Other Adjustments) ; and (3) All future rental payments to be received for property leased to others.

- Litigation Reporting Package

Determine if the Commission had approval from the Attorney General's Office to hire attorneys and to ensure proper coding of legal and attorney payments based on inspection of the SCEIS general ledger and the Yearend Reporting - Litigation Expense. Haphazardly select five transactions to inspect for proper approval, amounts charged within approved limits, and service date range.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Commission prepared records. In addition, inspect all payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Reporting Package Finding

We observed that two leases should not have been reported in Section II, "Leases with Contingent Rents". Instead, one lease should have been reported on the Operating Leases Future Minimum Payment Schedule and another lease should have been reported in Other Adjustments. Thus, the current year payments for contingent rents is overstated by \$21,409, Current expense for the Operating Leases Future Minimum Payment Schedule is understated by \$17,585, and Other Adjustments is understated by \$3,824. Additionally, the future minimum payments were understated by \$5,669 in 2018 and \$3,717 in 2019.

Management's Response

The agency notes the error and has taken corrective action to ensure it does not occur in the future. After July 1, 2017 the agency contracted with the Department of Administration for financial and procurement assistance, which includes filing the Year End Reports. This change will prevent this error from occurring in the future.

Reporting Package Finding

We also observed that an attorney was not paid at the rate approved by the South Carolina Attorney General. Per our inspection of supporting documentation, the South Carolina Attorney General Request for Authorization to Employ Associate Counsel form was approved at a rate of \$190 per hour. However, according to invoices, the attorney was paid at a rate of \$200 per hour. In addition, the attorney fees paid to a law firm exceeded the approved maximum fees of \$10,000. The Commission paid the law firm a total of \$11,160, exceeding the maximum by \$1,160.

Management's Response

We acknowledge the failure to process payment at the correct rate and the overpayment. The agency has reviewed the process for making payments to attorneys and changed the process to ensure the rate that is paid is one approved by the Attorney General's Office. Further, the process has been changed to ensure invoices from attorney's are properly reviewed in order to prevent paying more than authorized by the Attorney General's office.

Minutes

19. We will inspect the Commission's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

20. Through inquiry and inspection, determine if the Commission has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedures, except for the finding observed in the Reporting Package Section related to operating leases.