U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT
QUALITY CONTROL REVIEW

QUALITY CONTROL REVIEW
SINGLE AUDIT OF SOUTH CAROLINA DEPARTMENT OF EMPLOYMENT AND WORKFORCE
FOR THE YEAR ENDED JUNE 30, 2021

Date Issued: September 26, 2023
Report Number: 24-23-003-50-598

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

September 26, 2023

INSPECTOR GENERAL'S REPORT

James Michaelson
Chief Financial Officer
South Carolina Department of Employment and Workforce
1550 Gadsden Street
Columbia, South Carolina 29201

Dear Mr. Michaelson:

The purpose of this report is to formally advise you of the results of a Quality Control Review (QCR) the U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted on the single audit of the South Carolina Department of Employment and Workforce, which was completed by Scott and Company LLC ("the Firm") under the Office of Management and Budget (OMB) 2 CFR Part 200 (Uniform Guidance) for the year ended June 30, 2021.

Our objective was to determine if the audit was conducted in accordance with applicable standards, including *Generally Accepted Government Auditing Standards (GAGAS)* and *Generally Accepted Auditing Standards (GAAS)*, and met the requirements of OMB Uniform Guidance.[1]

We determined that the single audit report and audit work performed did not meet the requirements of GAGAS, GAAS, and OMB Uniform Guidance. Specifically, we found deficiencies in the planning and testing of Unemployment Insurance (UI). Also, the lack of internal controls in the Pandemic Unemployment Assistance (PUA) program needed to be reported. Lastly, the Schedule of Expenditures of Federal Awards (SEFA) was improperly presented.

Details on the results of our review are provided in the Enclosure. We appreciate the cooperation and courtesies the Firm extended to us during this review.

[1] 2 CFR Part 200.0-200.521

Sincerely,

Carolyn R. Hantz
Assistant Inspector General
for Audit

Enclosure

cc: Latonya Torrence
Director
Division of Policy, Review, and Resolution
Employment and Training Administration

Gregory Hitchcock
Audit Liaison
Office of Grants Management
Office of Management and Administration Service
Employment and Training Administration

Don Mobley
Managing Member
Scott and Company LLC

Enclosure

Quality Control Review
Single Audit of South Carolina
Department of Employment and Workforce
for the Year Ended June 30, 2021
(24-23-003-50-598)

The DOL OIG conducted a QCR of the single audit of the South Carolina Department of Employment and Workforce for the year ended June 30, 2021. A QCR is performed to provide evidence of the reliability of the single audit to the auditors of federal agency financial statements, such as those required by the Chief Financial Officers Act of 1990. The single audit conducted by the Firm covered two major programs[2], (1) the DOL's UI program and (2) the U.S. Department of Treasury's coronavirus relief fund. The coronavirus relief fund was not reviewed as part of this QCR because it was a non-DOL program.

Table 1: Scope of the OIG's QCR

DOL Major Program Sections Reviewed	Catalog of Federal Domestic Assistance (CFDA) Listing Number	DOL Major Funds Reported as Expended
UI Coronavirus Aid, Relief, and Economic Security (CARES) Act	17.225	$2,969,706,840
UI	17.225	$644,005,961
UI Administration	17.225	$56,358,549
UI (EUISAA)[3]	17.225	$4,111,566
Total DOL Major Funds Reported as Expended		$3,674,182,916

Source: South Carolina Department of Employment and Workforce's June 30, 2021 SEFA

For the year ended June 30, 2021, the South Carolina Department of Employment and Workforce reported federal expenditures of $3,757,488,499, which consisted of DOL funds totaling $3,718,008,159 and non-DOL funds

[2] Major Programs are critical to the single audit process, as they are the programs for which the Firm will be performing additional internal control work on and ultimately issuing a compliance opinion on as part of the single audit.
[3] Emergency Unemployment Insurance Stabilization and Access Act of 2020, Pub. L. 116-127, Division D

totaling $39,480,340. The scope of the OIG's QCR was the DOL major program UI equaling $3,674,182,916 of the $3,718,008,159 of total DOL funds.[4]

The single audit is an organization-wide audit or examination of a non-federal entity that expends $750,000 or more of federal assistance received for its operations. Usually performed annually, a single audit has two main objectives:

1. Audit the entity's financial statements and reporting on a separate SEFA in relation to those financial statements.

2. Conduct a compliance audit of federal awards expended during the year as a basis for issuing additional reports on compliance related to major programs and on internal control over compliance.

RESULTS

We determined that the single audit report and audit work performed did not meet the requirements of GAGAS, GAAS, and OMB Uniform Guidance. Specifically, we found deficiencies in the planning and testing of UI. Also, the lack of internal controls in the PUA program needed to be reported. Lastly, the SEFA was improperly presented.

DEFICIENCIES IN THE PLANNING AND TESTING OF UI

Across the country, news and law enforcement agencies have reported unprecedented levels of UI fraud. We also reported unprecedented levels of potential UI fraud, reporting issues, and high improper payment rates. In our CARES Act Alert Memorandum of February 22, 2021,[5] we estimated potential fraud could range into the tens of billions of dollars. We also reported to the Employment and Training Administration in our September 21, 2022, Alert Memorandum[6] that we identified $45.6 billion in potentially fraudulent UI pandemic benefits paid in four specific high-risk areas, to individuals with Social Security numbers: (1) filed in multiple states, (2) of deceased persons, (3) used

[4] The remaining $43,825,243 in DOL funds were used for non-major DOL programs which were not tested by the Firm as part of the single audit.
[5] DOL OIG Alert Memorandum entitled "The Employment and Training Administration Needs to Ensure State Workforce Agencies Implement Effective Unemployment Program Fraud Controls for High-Risk Areas", Report Number 19-21-002-03-315, issued on February 22, 2021
[6] DOL OIG Alert Memorandum entitled "Potentially Fraudulent Unemployment Insurance Payments in High-Risk Areas Increased to $45.6 Billion", Report Number 19-22-005-03-315, issued on September 21, 2022

to file unemployment claims with suspicious email accounts, and (4) of federal prisoners.

In our alert memorandum issued on June 16, 2021,[7] and in our May 28, 2021, audit report[8], we reported South Carolina and other states did not complete all of the required integrity cross-matches on unemployment insurance claims. We identified that South Carolina did not complete the required reporting for the PUA program. Additionally, in an August 2, 2022, alert memo,[9] we identified that South Carolina did not complete the required reporting for the Mixed Earners Unemployment Compensation program.

On September 15, 2022, the Firm issued an unmodified opinion on the UI major program and reported one finding related to untimely quarterly report submissions. The unmodified opinion was issued despite the fact that a year earlier, according to publicly available UI data for the period October 1, 2020, to September 30, 2021, South Carolina had the 12th-worst fraud rate of 12.243 percent and 13th-worst improper payment rate of 24.658 percent. Additional areas of concern noted include:

- During audit planning, the overall risk assessment level for the UI program was moderate.
- Documentation of sample universes and sampling methodologies when conducting internal control and compliance testing for the activities allowed or unallowed and eligibility compliance requirements was absent.
- There was a lack of adequate testing for the benefit payment funding streams associated with the UI program for the activities allowed or unallowed and eligibility compliance requirements.

THE OVERALL RISK ASSESSMENT LEVEL FOR THE UI PROGRAM WAS MODERATE

The Firm stated that it did not know the extent of fraud and improper payments occurring in the UI program. During the fraud inquiry phase, the Firm's electronic working papers indicate that the State of South Carolina Department of Employment and Workforce stated nothing was noted related to alleged or actual

[7] DOL OIG Alert Memorandum entitled "The Employment and Training Administration Needs to Issue Guidance to Ensure State Workforce Agencies Provide Requested Unemployment Insurance Data to the Office of Inspector General," Report Number 19-21-005-03-315, issued June 16, 2021

[8] DOL OIG report entitled "Covid-19: States Struggled to Implement CARES Act Unemployment Insurance Programs", Report Number 19-21-004-03-315, issued on May 28, 2021

[9] DOL OIG Alert Memorandum entitled "The Employment and Training Administration Needs to Ensure State Workforce Agencies Report Activities Related to CARES Act Unemployment Insurance Programs", Report Number 19-22-004-03-315, issued on August 2, 2022

occurrences of fraud or noncompliance outside of fraudulent benefit claims, which is a normal part of operations. South Carolina's management believed proper controls were in place to mitigate the chances of fraud taking place. The Firm performed testing, mainly in the single audit section to ensure audit fraud was not material to the financials. The Firm determined basic procedures in the core audit program to be sufficient. This approach is generally not appropriate for fraud risks or other significant risks.

AU-C Compliance Audits 935.17 requires that the auditor should identify and assess the risks of material noncompliance, whether due to fraud or error for each applicable compliance requirement, and should consider whether any of those risks are pervasive to the entity's compliance. If the risks are pervasive, they may affect the entity's compliance with many compliance requirements.

The American Institute of Certified Public Accountants (AICPA) Audit Guide on Government Auditing Standards and Single Audits (AAG-GAS 6.35) states that in performing risk assessment procedures, the auditor should inquire of management about whether there are findings and recommendations in reports or written communications resulting from previous audits, attestation engagements, and internal or external monitoring that directly relate to the objective of the compliance audit. The auditor should gain an understanding of management's response to findings and recommendations that could have a material effect on the entity's compliance with the applicable compliance requirements (for example, taking corrective action). This information should be used to identify and assess risks of material noncompliance and determine the nature, timing, and extent to which testing the implementation of any corrective actions is applicable to the audit objectives. These procedures are performed to assist the auditor in understanding whether management responded appropriately to such findings.

The Firm stated the risk assessment was high for inherent risk, low for control risk, and moderate for overall risk. The Firm explained that when they have a high inherent risk and low control risk, they use moderate for overall risk. The low control risk was used because the Firm did not have any internal control exceptions in their sample. The Firm agreed that they should have used high risk on the PUA program, but not necessarily on the others.

DOCUMENTATION OF SAMPLE UNIVERSES AND SAMPLING METHODOLOGIES WAS ABSENT

The sample universes and sample methodologies were not documented by the Firm when conducting the internal control and compliance testing supporting activities allowed or unallowed and eligibility for the internal control and compliance testing conducted. The audit documentation provided by the Firm in the electronic working paper file did not contain information on the sample universes, such as exact size and contents of allowable costs, participants, and required reports. The Firm could not provide the requested sample populations used to test the applicable internal control and compliance requirements for activities allowed or unallowed and eligibility. To ensure the samples represented the entire universe, the Firm should have reconciled the total dollar amounts reported (supporting drawdowns, disbursements, participant activity, and reported costs) to the individual sample populations.

AU-C Audit Documentation 230.08 states the auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
b. the results of the audit procedures performed and the audit evidence obtained; and
c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

AAG-GAS 11.37 states the auditor should select items for the sample in such a way that the auditor can reasonably expect the sample to be representative of the relevant population. If the physical or electronic representation (for example, a printout or electronic file purportedly containing all expenditures) and the desired population differ, the auditor might make erroneous conclusions about the population. To verify the completeness of a population, the auditor could, for example, reconcile the population to accounting or other relevant records or to the schedule of expenditures of federal awards, or perform other procedures to verify the population is complete. Populations relevant for a Uniform Guidance compliance audit test may not consist of accounting records (for example, eligibility files for a particular major program do not directly relate to a financial statement amount). Regardless, the auditor should develop and perform audit procedures sufficient to conclude that the population includes all the transactions of interest for the specific audit objective.

INADEQUATE TESTING OF BENEFIT PAYMENT FUNDING STREAMS

More testing needs to be performed to adequately cover the benefit payment funding streams associated with the UI program for the activities allowed or unallowed and eligibility compliance requirements. An adequate testing of the benefit payment funding streams for the UI program may have identified fraud and noncompliance with provisions of laws, regulations, or agreements that would have assisted DOL program officials in their assessment of the UI program performance.

The UI benefit payment cost components were not identified or segregated in the testing of the internal control and compliance testing performed by the Firm. These cost components consisted of the following nine unemployment insurance program benefit payment categories:

1. Regular UI benefit payments
2. Extended UI benefit payments
3. Unemployment compensation for federal workers and unemployment compensation of ex-service members
4. Trade readjustment allowance and reemployment trade adjustment assistance benefit payments and wage subsidies
5. Disaster unemployment assistance benefit payments
6. PUA benefit payments
7. Pandemic emergency unemployment compensation benefit payments
8. Federal pandemic unemployment compensation benefit payments
9. Mixed earner unemployment compensation benefit payments

COMPLIANCE REQUIREMENT – ACTIVITIES ALLOWED OR UNALLOWED

The Firm’s compliance testing of activities allowed or unallowed consisted of three individual samples: 1) UI Administrative Cost Compliance Testing, 2) UI Benefit Payment Compliance Testing, and 3) Trade Readjustment Allowance and Reemployment Trade Adjustment Assistance Benefit Payments and Wage Subsidies Compliance Testing. The federal cost expenditure universe of $3.67 billion was not identified or reconciled in total for the UI program costs, and the individual benefit payment cost components’ exact size and contents were not identified or stratified.

2 CFR Part 200, Appendix XI, OMB Compliance Supplement, July 2021 for Activities Allowed or Unallowed suggests that the auditor perform the following compliance audit procedures:

1. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and terms and conditions of the federal award pertaining to the program.

2. When allowability is determined based upon summary level data, perform procedures to verify that:

   a. Activities were allowable.
   b. Individual transactions were properly classified and accumulated into the activity total.

3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction for an allowable activity.

4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

Sample # 1 UI Administrative Cost Compliance Testing

The Firm did not maintain a universe supporting the administrative cost universe or the sample methodology supporting the rationale for 40 sample items selected for internal control and compliance testing contained in the electronic work paper. The sample methodology selected was haphazard;[10] however, there was no confirmed explanation for why this sampling methodology was used. There were no exceptions noted for the compliance testing performed.

Sample # 2 UI Benefit Payment Compliance Testing

The Firm did not maintain a universe supporting the 30 sample items selected for UI benefit payments internal control and compliance testing. These sampled items were not selected from the benefit payment universe but were selected as a part of the eligibility sample testing. As such, the sampling and testing of these costs was not conducted properly, as individual benefit payment streams were not identified. Furthermore, the Firm did not maintain the participant universe and did not document the sample methodology for its participant selection in its electronic work papers. There were no exceptions noted for the benefit testing performed.

Sample # 3 Trade Readjustment Allowance and Reemployment Trade Adjustment Assistance Benefit Payments and Wage Subsidies Compliance Testing

The Firm did not maintain a universe supporting the 10 sample items selected for Trade Readjustment Allowance and Reemployment Trade Adjustment Assistance benefit payments and wage subsidies internal control and compliance

[10] AAG-GAS 11.95 states the haphazard selection technique represents the auditor's best attempt at making a random selection judgmentally without the use of a structured selection technique (for example, random numbers or tables).

testing. These sampled items were not selected from the benefit payment universe but were selected as a part of the eligibility sample testing. As such, the sampling and testing of these costs was not conducted consistently. Specifically, individual benefit payment streams were not sampled separately. All nine funding streams should have been sampled. For a moderate overall risk level, a total of 40 items should have been sampled from each of the nine funding streams. However, as shown in Samples 2 and 3 above, the Firm improperly split funding streams between 30 and 10 rather than 40 in total. Furthermore, the Firm did not maintain the participant universe and did not document the sample methodology for its participant selection in its electronic work papers. There were no exceptions noted for the benefit testing performed.

AAG-GAS 11.41 states in order to properly define the sampling unit, it is also important that the auditor determine how the auditee maintains its records (for example, by participant, by program, by location, etc.). Based on the nature of the records, the auditor may then properly design a method to define the sampling unit and identify the sample population.

AAG-GAS 11.91 states the auditor should select items from the sample in such a way that the auditor can reasonably expect the sample to be representative of the relevant population and likely provide the auditor with a reasonable basis for conclusions about the population. The goal of sample selection, a representative sample, is the same for both non-statistical and statistical sampling. For statistical sampling, it is necessary to use an appropriate random sampling method, such as simple random sampling or systematic sampling. In a non-statistical sample the auditor uses a sample selection approach that approximates a random sampling approach.

COMPLIANCE REQUIREMENT - ELIGIBILITY

The Firm did not maintain a participant universe in its electronic work papers supporting the participants served and did not maintain support for its sample methodology supporting the 40 participants selected in its eligibility internal control and compliance testing. There were no exceptions noted for the compliance testing performed.

2 CFR Part 200, Appendix XI, OMB Compliance Supplement, July 2021 for Eligibility suggests that the auditor perform the following compliance audit procedures:

d. Select a sample of individuals receiving benefits and perform tests to ascertain if:

1) The required eligibility determinations and redeterminations (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements, and the auditor should design and perform appropriate tests for both. Also, some programs require redeterminations of eligibility, which should also be tested.)

2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.

3) Benefits were discontinued when the period of eligibility expired.

The Firm stated it usually does one sample size of 40 or 60 per major program for activities allowed or unallowed and eligibility. The Firm realized that this was not enough in this case because there were so many different programs under CDFA number 17.225. The Firm stated they plan to choose a larger sample and make sure all programs are included.

THE LACK OF INTERNAL CONTROLS IN THE PUA PROGRAM NEEDED TO BE REPORTED

On March 27, 2020, Congress passed the CARES Act with the intent of providing expanded UI benefits to workers who were unable to work as a direct result of the COVID-19 pandemic. Section § 2102 of the CARES Act created the PUA program to extend UI benefits to individuals who were not traditionally eligible for unemployment insurance benefits until December 31, 2020. This includes self-employed workers, independent contractors, those with limited work history, and others. The CARES Act provided up to 39 weeks of PUA coverage to individuals who were not traditionally eligible for unemployment insurance benefits. During the PUA program's first 9 months, PUA claimants did not have to provide evidence of earnings and the states relied solely on claimant self-certifications, rendering the program extremely susceptible to improper payments, including fraud.

In our September 30, 2022, audit report,[11] we reported that the Employment and Training Administration and states did not ensure pandemic-related UI funds were paid only to eligible individuals promptly. Of the 4 states we tested, from March 28, 2020, through September 30, 2020, we estimated $30.4 billion of the

[11] DOL OIG Report entitled "COVID-19: ETA and States Did Not Protect Pandemic-Related UI Funds from Improper Payments Including Fraud or from Payment Delays", Report Number 19-22-006-03-315, issued on September 30, 2022

$71.7 billion in PUA and Federal Pandemic Unemployment Compensation were paid improperly (42.4 percent). We estimated $9.9 billion of that was paid to likely fraudsters (13.8 percent). Notably, in the 4 states, 1 in 5 dollars initially paid in PUA benefits went to likely fraudsters.

Per Internal Control – 2 CFR Part 200.303(a), a non-federal entity that receives a federal award as described in the Uniform Guidance must: "Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Governmen*t issued by the Comptroller General of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."

AU-C Compliance Audits 935.17 requires that the auditor should identify and assess the risks of material noncompliance whether due to fraud or error for each applicable compliance requirement and should consider whether any of those risks are pervasive to the entity's compliance. If the risks are pervasive, they may affect the entity's compliance with many compliance requirements.

The Firm determined there was no internal control issue at the South Carolina Department of Employment and Workforce because South Carolina was doing what South Carolina was told to do by DOL. According to the CARES Act, PUA claimants did not have to provide evidence of earnings, and South Carolina could rely solely on claimant self-certifications of eligibility for benefits. Without internal controls, the PUA program operates inefficiently, in an unreliable manner, and out of compliance with applicable laws and regulations. Effective internal controls reduce the risk of loss and help ensure the financial statements are reliable. Therefore, the lack of internal controls needed to be reported so improvements could be made in the PUA program.

SEFA IMPROPERLY PRESENTED

The South Carolina Department of Employment and Workforce incorrectly included Treasury and Homeland Security programs and expenditures in the DOL section of the SEFA. Specifically, the DOL section of the SEFA contained the CFDA Listing Number 21.019 for the Treasury's Coronavirus Relief Fund, with federal expenditures totaling $37,321,241, and the CFDA Listing Number 97.050 for the Homeland Security's Presidential Declared Disaster Assistance to Individuals and Households - Other Needs, with federal expenditures totaling $1,700,000.

2 CFR Part 200.510(b)(1) states that at a minimum, the schedule must list individual federal programs by federal agency.

The South Carolina Department of Employment and Workforce incorrectly categorized the SEFA. Also, the Firm needs to verify the federal programs are properly presented in the SEFA.

The total federal expenditures on the SEFA in the DOL section were overstated by $39,021,241. When federal programs are not presented properly in the SEFA, it does not provide for uniform report presentation or allow users to more efficiently and effectively use the data contained in the SEFA. The SEFA, which is prepared by South Carolina and considered supplementary information to the financial statements, is a key part of the reporting package required by the Uniform Guidance. The SEFA also serves as the primary basis that auditors use to determine which programs will be audited as part of the single audit.

OIG RECOMMENDATIONS

We recommend the Firm:

1. Re-perform the planning and testing of UI for activities allowed or unallowed and eligibility in accordance with the requirements of GAGAS, GAAS, and OMB Uniform Guidance.
2. Document sampling universes and apply adequate sampling methodologies.
3. Re-evaluate the risk assessment level by considering the amount of UI fraud and improper payments.
4. Inquire of South Carolina’s management about whether there are findings and recommendations in reports or other written communications resulting from previous audits, attestation engagements, or other written communications that directly relate to the objectives of the audit.
5. Report the lack of internal controls over the PUA program.
6. Work with the South Carolina Department of Employment and Workforce to remove the Treasury and Homeland Security programs and expenditures from the DOL section of the SEFA and ensure the total DOL federal expenditures are correctly reported.
7. Revise and reissue the single audit report.

THE FIRM'S RESPONSE

Although the Firm disagreed with certain report wording, they generally concurred with findings and recommendations in our report. The Firm has already begun to implement the recommendations and expects to reissue their report by December 31, 2023. The Firm's response to the report is contained in Appendix B.

Appendices

APPENDIX A: OBJECTIVE, SCOPE, METHODOLOGY, & CRITERIA

OBJECTIVE

Our objective was to determine if the audit was conducted in accordance with applicable standards, including GAGAS and GAAS, and met the requirements of OMB Uniform Guidance.

SCOPE

We performed a QCR of Scott and Company LLC's single audit of the South Carolina Department of Employment and Workforce's financial statements, SEFA, reports required by GAGAS, and OMB Uniform Guidance for the year ended June 30, 2021. Our QCR of Scott and Company LLC covered $3,674,182,916 in federal expenditures for the DOL major program UI. We performed our work onsite at Scott and Company, LLC in Columbia, South Carolina.

METHODOLOGY

We reviewed the single audit report using the Council of Inspectors General on Integrity and Efficiency (CIGIE) Guide for Desk Reviews of Single Audit Reports and reviewed the supporting audit documentation using the CIGIE Guide for Quality Control Reviews of Single Audits. These guides were developed to ensure compliance with the requirements of OMB Uniform Guidance (including the Compliance Supplement), GAGAS, and the AICPA Audit Guide on "Government Auditing Standards and Single Audits." We reviewed the financial statements, compliance, and internal control reporting; SEFA; and Schedule of Findings and Questioned Costs. We also held discussions with the Firm to accomplish the required steps.

Specifically, we reviewed:

- Auditor Qualifications
- Independence
- Professional Judgment/Due Professional Care
- Quality Control
- Fieldwork
- Schedule of Federal Awards
- Determination of Major Federal Programs
- Schedule of Findings and Questioned Costs
- Summary of Prior Audit Findings

- Financial Statement Risk Assessment
- Financial Statement Identification and Evaluation of Audit Findings
- Communication of Financial Statement Audit Findings
- Compliance with AICPA Standards
- Considerations Related to Audit of Major Federal Program
- Sampling - Major Federal Program (Internal Control and Compliance)
- Testing of Internal Control Over Compliance
- Testing for Compliance with Direct and Material Compliance Requirements

We also reviewed the Firm's peer review applicable to the period of the audit.

CRITERIA

- OMB Uniform Guidance, 2 CFR Part 200
- 2021 OMB Compliance Supplement
- AICPA Audit Guide on Government Auditing Standards and Single Audits
- Clarified Statements on Auditing Standards (AU-C)
- GAGAS, 2018 Revision

APPENDIX B: FIRM'S RESPONSE

SCOTT + COMPANY = not your average accounting firm

We have the following responses to the USDOL's quality control review of the audit of the South Carolina Department of Employment and Workforce for the year ended June 30, 2021. We begin with "RESULTS" on p.4 of your draft report.

RESULTS

We believe that this summary paragraph should read "single audit report and audit work performed did not **FULLY** meet the requirements of GAGAS, GAAS, and OMB Uniform Guidance". We met many of the requirements, but not all of them. For example, there were no comments on the audited financial statements of SCDEW, which is a very big part of the audit.

In addition, the last sentence should read "Lastly, the SEFA had two programs that were classified under the wrong agency. These misclassified funds represent 1% of total USDOL funds and 1% of total federal funds included on the schedule. Everything else on the SEFA is correct."

The quality control team for USDOL told us in the entrance conference that they were flexible on the wording of the report. The changes above are wording changes that we requested to be made. USDOL decided not to make any wording changes to the report.

DEFICIENCIES IN THE PLANNING AND TESTING OF UI

We agree with your comment that the memoranda listed on p.5 dated June 16, 2021, May 28, 2021, and August 2, 2022 were issued by USDOL, but we did not see those memoranda. Nor were we aware of the publicly available UI data for the period October 1, 2020 to September 30, 2021. Regarding the 12th highest state in the U.S. in fraud and improper payments, that could be because some states did not report any fraud, whereas South Carolina did report what they knew of at the time, which was a lot because they continued to prevent and detect it. For example, some states reported $0 fraud, which could not be correct.

We suggest that for the 6 states that USDOL is responsible for the quality control reviews, the external auditors for those states be sent copies of these memos to make sure all external auditors see them, or make sure that this information is included in the updated compliance supplement on an annual basis. We do and always have used the compliance supplement to test federal programs.

We agree that the overall risk assessment level for the UI program should have been high, especially for the PUA program. The compliance supplement stated that the risk should be high on the pandemic funds.

We agree that the sample universes were not documented in our files. The proper universes used for the audit were proper, but we did not summarize them in our workpapers.

We documented the sampling methodologies as haphazard on PPC's sample selection worksheet. USDOL commented that we should have documented why the haphazard method of sample selection was used. It was done like this because of the volume of transactions. It would be very difficult to do random sampling because the list of transactions is so long. We believe that our haphazard sampling methodology resulted in a representative sample of the universe tested. However, we will document our reason for our sampling method in the future.

1441 Main Street, Suite 800
Columbia, South Carolina 29201

PHONE: (803) 256-6021 | FAX: (803) 256-8346
www.scottandco.com

Post Office Box 8388
Columbia, South Carolina 29202

We tested 40 benefit payments relating to activities allowed or unallowed and eligibility, which is what we normally would have done using moderate risk. However, we agree with USDOL that a larger sample is necessary and we are in the process of working on that.

The additional work for this comment and all other recommendations should be completed by the end of 2023.

THE OVERALL RISK ASSESSMENT LEVEL FOR THE UI PROGRAM WAS MODERATE

We agree that risk should have been assessed at high. We will use high risk in the extended procedures that we are working on.

DOCUMENTATION OF SAMPLE UNIVERSES AND SAMPLING METHODOLGIES WAS ABSENT

We agree that the sample universes were not documented in our files. The proper universes used for the audit were proper, but we did not summarize them in our workpapers.

We documented the sampling methodologies as haphazard on PPC's sample calculation worksheet. However, we did not document our rationale for using haphazard sampling. We will document this in the future.

INADEQUATE TESTING OF BENEFIT PAYMENT FUNDING STREAMS

We tested 40 benefit payments for activities allowed and unallowed and eligibility. This sample size of 40 was based on our risk assessment as moderate. We did not have any exceptions, compliance or internal control, in testing these 40 items. We evaluated risk at moderate because we concluded that inherent risk was high, control risk was low, so overall risk was moderate. We chose other sample sizes on different compliance requirements using moderate risk.

The compliance supplement says that high risk must be used in testing unemployment benefits because of the amount of money that was being spent by the federal government and potential fraud on unemployment benefits.

Because risk should be assessed at high and the dollar amount of unemployment benefits is so high, we agree that additional sampling should be performed on benefit payments and that work is in progress. We also agree to use the 9 funding streams discussed in the report.

THE LACK OF INTERNAL CONTROLS IN THE PUA PROGRAM NEEDED TO BE REPORTED

We never would have thought of this situation in the same way as USDOL. The South Carolina Department of Employment and Workforce had controls in place over the PUA funds, but the grant requirement says that agencies must self-certify earnings for the first 9 months of the program. After that, the proof of income would have to be presented to qualify for unemployment for self-employed individuals.

So, the SC DEW did what USDOL told them to do and did not require certification of self-employment income under the PUA program. When it became required, SC DEW began to verify income and, after being told to, they went back to the applications for the first 9 months and certified income for them. They then sent bills to people who should not have gotten unemployment benefits.

Even though SCDEW did not have the ability to verify income, they continued to perform their other fraud controls. For example, they still did all of their cross matches with places like South Carolina Department of Revenue, the South Carolina Department of Corrections, etc. In doing this, they caught a lot of fraud during the first 9 months and thereafter in not just PUA, but all of the CARES Act funds. So, the management believes that they did have additional controls over the money that went out in the first 9 months and thereafter.

Another thing that they did at the beginning of the pandemic was to hire 50 additional people to help with fraud prevention and detection. SCDEW claims that they were in compliance with laws, rules and regulations because during the entire pandemic period they were in compliance with the CARES Act. We are going to delve into this in more depth as part of our additional procedures, but we may or may not have an internal control finding relating to this in the reissued report.

The SCDEW pleaded with USDOL to require proof of income, but to no avail, so they did what they could using other controls.

SEFA NOT PROPERLY PRESENTED

We do not agree with this finding being included in the report. There were 2 programs on the SEFA that were misclassified and included under the USDOL heading. These two programs made up 1% of total federal expenditures and 1% of USDOL funding. The rest of the SEFA was correct. The misclassification of these funds did not affect the single audit and should not have affected the decisions of anyone using the SEFA. The SEFA was well prepared, it simply had a misclassification of 2 immaterial funds. However, we will change this misclassification in the reissued report.

We would also like to point out that most of the issues in this report were caused by the pandemic and some of the findings are based on USDOL preferences (i.e. sampling separately for all 9 grant streams when there is only one CFDA number) and are not detailed out anywhere in writing. The only way we would have known to do most of this is to have some communication with USDOL before the single audit began.

OIG RECOMMENDATIONS

We agree with OIG's recommendations, have already begun to address them, and have recalled our report until the recommendations are resolved. As mentioned earlier in this response, we plan to have the reports reissued for the year ended June 30, 2021 by December 31, 2023.

Donald J Mobley

Donald J. Mobley, CPA
Managing Member

APPENDIX C: ACKNOWLEDGEMENTS

Key contributors to this report were:

Sean Gilkerson, Audit Director
Grover Fowler, Jr., Assistant Director
Mark Lemke, Senior Auditor
Patrick Trager, Auditor
Walter Bailey, Writer-Editor

REPORT FRAUD, WASTE, OR ABUSE TO THE DEPARTMENT OF LABOR

Online
http://www.oig.dol.gov/hotline.htm

Telephone
(800) 347-3756 or (202) 693-6999

Fax
(202) 693-7020

Address
Office of Inspector General
U.S. Department of Labor, 200 Constitution Avenue, NW
Room S-5506 Washington, DC 20210