

APPENDIX B: FIRM'S RESPONSE



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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.

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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 METHODOLOGIES 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.



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