

**SOUTH CAROLINA DEPARTMENT
OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 20, 2009

The Honorable Mark Sanford, Governor
and
Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department on Consumer Affairs (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2008, in the areas addressed. The Department'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 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 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 remittance 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 general, earmarked, restricted 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 (\$10,500 – general fund, \$18,300 – earmarked fund, \$1,900 – restricted fund, and \$0 – federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Timeliness of Deposits and Support for Online Receipt Transactions in the Accountant's Comments section of the report.

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

- We inspected 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 Department, 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 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, restricted 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 (\$21,200 – general fund, \$19,500 – earmarked fund, \$0 – restricted fund, and \$800 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cut-Off of Expenditures and Object Codes in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected 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 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 all new employees and those who terminated employment to determine if the employees were added/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last 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.

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- 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, restricted 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 (\$21,200 – general fund, \$19,500 – earmarked fund, \$0 – restricted fund, and \$800 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in the 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. We found no exceptions as a result of the procedures.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and all interagency 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 for our test of journal entries 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 Department 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 randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Department'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 Department'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 Commission's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

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

Our findings as a result of these procedures are presented in Allocation of Rental Charges and Bond Approval in the Accountant's Comments section of the report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Department 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, 2008 prepared by the Department 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; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

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Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
May 20, 2009

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Timeliness of Deposits and Cut-Off of Expenditures 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 and of the governing body and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S 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.

TIMELINESS OF DEPOSITS

During our test of cash receipts, we identified four deposits which contained receipts that were not deposited in a timely manner. We determined that receipts were not always forwarded promptly from the receiving divisions to the finance staff. This finding was also noted in our prior year report.

South Carolina Code of Laws Section 11-13-120 states “All State departments, boards, bureaus, commissions or other State agencies charged with the collection of any taxes, licenses, fees, interest or any income to the State shall, with ordinary business promptness, deposit the same when collected with or to the credit of the State Treasurer, either at his office in the State Capitol or in such bank or banking institution within the State as shall be designated by the State Treasurer.” Further, Section 72.1 of the fiscal year 2007-2008 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We again recommend that the Department review and strengthen its procedures to ensure that receipts are deposited timely in accordance with State law.

RECONCILIATIONS

We obtained the agency-prepared fiscal month 13 reconciliation. We traced the ending revenue balances from the reconciliation to the Department’s accounting records and to the Statewide Accounting and Reporting System (STARS) reports. Based on the procedures performed, we identified differences between the Department’s accounting records and the STARS reports for subfunds 2837 and 3035. We determined the Department’s reconciliation did not identify and document these differences. Because the Department did not properly perform a revenue reconciliation, any adjustment that might have been necessary as a result of this difference was not made.

Section 2.1.7.20. C. of the Comptroller General's Policies and Procedures Manual (STARS manual) requires that all agencies perform monthly reconciliations between their accounting records and STARS to ensure timely detection and correction of errors. Separate reconciliations must be performed of cash, revenue, and expenditure accounts and must be performed at the level of detail in the Appropriation Act. Reconciliations must be performed monthly (i.e., shortly after month – end), be documented in writing in an easily understandable format with all supporting workpapers maintained for audit purposes, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Further the STARS manual states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

We recommend the Department develop and implement procedures to ensure that reconciliations are performed in accordance with applicable State regulations.

CUT-OFF OF EXPENDITURES

During our Cut-Off Test of Expenditures, we noted that one of 25 vouchers tested was not paid in the proper year. The voucher reimbursed an employee for travel that occurred in both fiscal year 2008 and fiscal year 2009 and was recorded as a fiscal month 01 fiscal year 2009 transaction. A similar finding was noted in our prior year report.

Section 72.2 of the fiscal year 2007-2008 Appropriations Act states that all funds appropriated from the general fund of the State are appropriated to meet the ordinary expenses of State government for fiscal year 2007-2008.

We again recommend the Department strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

OBJECT CODES

During our Test of Disbursements, we noted 3 out of 25 vouchers tested were posted to an incorrect object code. The Department used object code 0309 – Printing instead of object code 0209 – Printing, Binding, Advertising to record the payment of printing services.

Section 2.1.6.20 of the Comptroller General’s Statewide Accounting and Reporting Manual (STARS) provides definitions of expenditure object codes to help agencies properly classify expenditures.

We recommend the Department carefully review invoices to ensure that expenditures are charged to the correct object codes as defined in the STARS Manual.

ALLOCATION OF RENTAL CHARGES

The Department does not have a written policy related to the allocation of rental charges. The Department expended approximately \$384,000 on rent in fiscal year 2007-2008. Approximately \$62,000 (16%) was charged to State general fund appropriations and \$322,000 (84%) was charged to Earmarked funds. Because the Department does not have a formal policy documenting its method of allocation, we were unable to determine if its allocation was fair and equitable.

Section 1-11-67 of the 1976 South Carolina Code of Laws states, in part, “All departments and agencies against which rental charges are assessed and whose operations are funded in whole or part by federal and other nonappropriated funds are both directed to apportion the payment of these charges equitably among funds to ensure that each bears its proportionate share.”

We recommend the Department develop and implement policies and procedures to ensure that rental charges are allocated equitably among all funds. The Department should ensure that its allocation methodology is sound and well documented.

BOND APPROVAL

The Department did not obtain approval from the State Auditor's Office for its blanket bond purchased July 2003. In addition, the most current approval from the Attorney General's Office was dated September 1998.

Section 1-11-180 of the 1976 South Carolina Code of Laws states, in part, "In addition to the other powers granted the Budget and Control Board under this chapter of any other provision of law, the Board may:...(4) approve blanket bonds for a state agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General." (The Budget and Control Board has delegated this responsibility to the State Auditor.)

We recommend the Department obtain the required approvals of the Attorney General and the State Auditor for its blanket bond.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

SUPPORT FOR ONLINE RECEIPT TRANSACTIONS

The Department could not provide us with documentation to support one out of 25 receipt transactions tested in our Test of Cash Receipts. Therefore, we were unable to determine if the receipt was deposited in a timely manner or if the receipt amount was in accordance with Department fee schedule.

Effective internal controls include controls to ensure supporting documentation is maintained to support all recorded transactions.

We recommend the Department establish policies and procedures to ensure that documents can be located at all times to support recorded transactions.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2007, and dated May 30, 2008. We determined that the Department has taken adequate corrective action on the findings regarding Pay Calculation and Employer Contributions. We determined that the deficiencies titled Deposits and Expenditure Cutoff still exist; consequently we have reported similar findings in Section A of the report.

MANAGEMENT'S RESPONSE



The State of South Carolina
Department of Consumer Affairs

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Brandolyn Thomas Pinkston
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Pineville
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Cowpens
Wayne K. Sims
Columbia
C. Wayne Powell
Gaffney
David Campbell
Columbia
Carole C. Wells
Woodruff

Celebrating Over 30 Years of Public Service

July 22, 2009

Mr. Richard Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 120
Columbia, SC 29201

Dear Mr. Gilbert:

Please allow this letter to serve as the response to your preliminary draft of the report resulting from the agreed-upon procedures engagement relative to the accounting records of the Department of Consumer Affairs for the fiscal year ended June 30, 2008. We would like to address the following findings, which we believe are minor and could have been addressed as management discussion points.

Timeliness of Deposits: The report indicated that you identified four deposits which contained receipts that were not deposited in a timely manner. You identified four (4) checks from those four (4) deposits. One of the payments cited was an electronic payment (online credit card payment through SCBOS), which could not have been untimely, because they are considered instantaneous deposits. Based upon our review, only two (2) of the four (4) checks identified should have been deemed untimely. We make over 200 individual deposits annually. We recommend that you consider these facts before preparing your final report.

Reconciliations: The report stated there were differences in the Department's accounting records and the CG's reports for General Fund revenue. Our reconciliation indicates the difference or variance was only \$1.00. It appears you considered this a finding because there was no written explanation for the difference. We agree the accounting department did not make the necessary adjustment on the year end report for the \$1,000 overstatement of revenue in sub-fund 3035. That error was previously detected by staff, but through oversight the revenue spreadsheet was not adjusted.

Cut-Off of Expenditures: You noted one of twenty five (25) vouchers tested contained a travel reimbursement which occurred in the month of June and was paid for in July of the new fiscal year. Please note the books for FY2007 were closed on July 16, 2007. The employee involved did not remit the travel voucher for reimbursement until July 17, 2007, and therefore the payment was recorded in the new fiscal year.

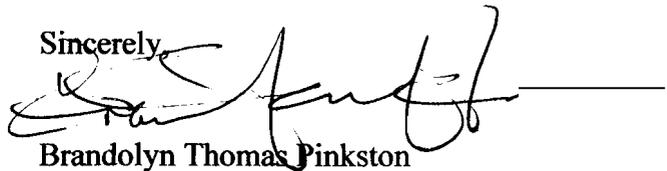
Object Codes: We accept the Accountant's Comments and will comply with the recommendations.

Allocation of Rental Charges: We accept the Accountant's Comments and will comply with the recommendations.

Bond Approval: At our recent exit conference held on July 21, 2009, we presented an approved list of Public Official Bonds and our CrimelHonesty policy which is being referred to as a blanket bond. This list was approved by the former State Auditor and the Office of the Comptroller General. In reference to the statute that was referenced (Section 1-11-180), it would be helpful to all state agencies if the State Auditor's Office would provide written correspondence on the process agencies should use in order to comply with this regulation.

Our review of the report is complete, and we authorize the release of the report. Attached is a list of current Commissioners and their addresses. We commend you and your staff for the professionalism demonstrated during this engagement and look forward to working with you and your staff in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Brandolyn Thomas Pinkston", with a horizontal line extending to the right from the end of the signature.

Brandolyn Thomas Pinkston

STATE AUDITOR'S RESPONSE

In its response to our finding titled Timeliness of Deposits the Commission stated that one of the receipts identified in the finding could not have been deposited late because it was an electronic payment which is considered to be an instantaneous deposit. None of the four receipts identified in the finding were electronic payments. The following list identifies the four receipts that we questioned:

<u>Deposit/Check Number</u>	<u>Date of Receipt</u>	<u>Date of Deposit</u>
8017/8521	June 22, 2007	August 14, 2007
8051/3131	September 27, 2007	October 24, 2007
8096/5157	January 10, 2008	January 25, 2008
8164/23075	June 5, 2008	June 17, 2008

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