

**SOUTH CAROLINA DEPARTMENT
OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 9, 2014

The Honorable Nikki R. Haley, 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 of Consumer Affairs (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2013, 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 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$17,100 – earmarked fund and \$900 – restricted fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$10,500 – general fund and \$18,000 – earmarked fund) and ± 10 percent.

The individual transactions were chosen randomly. Our finding as a result of these procedures is presented in Account Coding 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 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 payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$10,500 – general fund and \$18,000 – earmarked fund) and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in 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 ± 10 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, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries and 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 journal entry transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Account Coding and Transaction Approval and Documentation in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013, and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly 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 Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

We found no exceptions as a result of the procedures.

6. **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.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

8. **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, 2011, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012.

Our findings as a result of these procedures is presented in Account Coding and Reporting Packages 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 South Carolina Department of Consumer Affairs 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.

ACCOUNT CODING

The accountant's comment titled Account Coding reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2011, reported an exception for the miscoding of certain revenue transactions.

We sampled twenty-five disbursement transactions and noted that the Department miscoded one of the transactions. The Department coded an out-of-state travel expenditure (SCEIS Accounts 50505.....) as in-state travel (SCEIS Accounts 50500.....). In addition, we noted that the Department miscoded one of six journal entries selected for testing. We determined that the Department recorded revenue generated from late filing fees (SCEIS Account 4223080000) as miscellaneous revenue (SCEIS Account 4530030000).

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Office Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent accounting treatment.

We recommend the Department strengthen its internal controls over the recording of financial transactions. The Department should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

REPORTING PACKAGES

The accountant's comment titled Reporting Packages reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2011, reported several exceptions associated with the completion of the year end reporting packages including untimely submission of some reporting package forms.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

Our testing of the Department's fiscal year 2013 reporting packages revealed untimely submission of some reporting package forms. We determined that three of the Department's reporting packages were submitted between three days and three weeks after their respective due dates.

In addition, we determined that the Department overstated its accounts receivable balance reported to the Comptroller General on the Accounts Receivable Summary Form of the Miscellaneous Revenues Reporting Package. The Department's reporting package included contracted revenue which had not yet been earned. This error overstated the Department's accounts receivable balance \$510.

We recommend that the Department implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions, including meeting all filing dates imposed by the Comptroller General's Office.

SECTION B - OTHER WEAKNESS

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

TRANSACTION APPROVAL AND DOCUMENTATION

The Department could not provide adequate supporting documentation for one of six journal entry transactions selected for testing. In addition, the transaction did not contain evidence of Department approval. The transaction in question was initiated and processed by the SCEIS team on behalf of the Department.

An effective system of internal controls includes controls to ensure that accounting transactions are adequately supported by source documentation. It also ensures that the transaction has been approved by someone authorized to approve the transaction.

We recommend the Department implement procedures to ensure that all accounting transactions processed through its accounting system are supported by source documentation and approved by appropriate Department personnel.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2011, and dated August 9, 2012. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012. We determined that the Department has taken adequate corrective action on each of the findings except for Account Coding and Reporting Packages.

MANAGEMENT'S RESPONSE



Carri Grube Lybarker
Administrator

The State of South Carolina Department of Consumer Affairs

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Celebrating Over 35 Years of Public Service
July 25, 2014

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Via Electronic and Interagency Mail

Richard H. Gilbert, Jr. CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

RE: Management’s Response to the State Auditor’s Draft Report

Dear Mr. Gilbert:

Please allow this letter to serve as the South Carolina Department of Consumer Affairs’ (SCDCA) response to your preliminary draft of the state auditor’s report for the fiscal year ending June 30, 2013. As stated in prior audit responses SCDCA incurred severe budget reductions beginning in fiscal year 2009, which resulted in an inability to fill vacant positions, including a Director of Administration. This resulted in SCDCA personnel taking on new, additional duties. I am pleased to say, however, that the agency was able to secure funding in fiscal year 2014 to fill this integral position.

The addition of this level of leadership within the agency will further strengthen the Division’s efficiency and effectiveness, providing direct oversight to accounting activities. Further, updates to the policies and procedures manual are being made and tested to address noted deficiencies. These two elements are important steps in addressing all findings delineated in the draft report and for mitigation of future instances. Please also find below the agency’s responses pertaining to each finding delineated in the state auditor’s draft report:

***Finding #1* ACCOUNT CODING ERRORS**

Management Response

We agree with the findings and will correct these oversights by:

- 1) Having the newly hired director review transactions before final agency approval. She has requested a change in the SCEIS’ workflow to allow her to accomplish this task; and
- 2) Creating a checklist and “cheat code sheet” to prevent miscoding. The checklist will serve as a constant reminder of what needs to be verified before forwarding for additional/final approval(s). Further, to assist in eliminating these oversights, the “cheat code sheet” will provide the coder

with the Division name, name of the revenue program, the general ledger account and the definition of the accounts specifically used by SCDCA.

***Finding #2* TIMELINESS AND ACCURACY OF REPORTING PACKAGES**

Management Response

We agree with the findings. Moving forward, the agency will continue to utilize tools such as Microsoft Outlook Calendar to assist in submitting the required reports on or before the deadline.

In addition, the overstatement of revenue occurred as a result of activities related to a federal grant for product reviews/recalls. The actual activity occurred within the 2013 fiscal year but compensation to the agency, for rendered services, was not paid until FY14.

***Finding #3* TRANSACTION APPROVAL AND DOCUMENTATION**

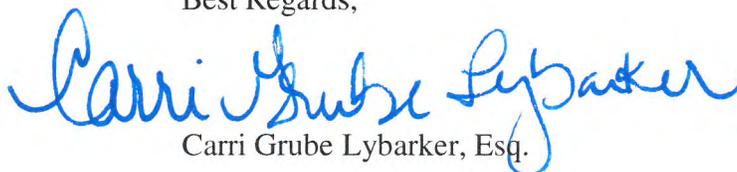
Management Response:

We agree with the findings. This oversight was the result of a telephone discussion with SCEIS and SCDCA. SCDCA provided a telephone approval to correct journal entries to enable SCEIS to prepare for carryforward of agency's remaining funds into the new fiscal year. In the future, we will ensure written approvals from authorized personnel and documentation are obtained to support all activity, regardless of the processing method employed.

Thank you for the opportunity to obtain a third parties' perspective on our strengths and weaknesses in the accounting arena and to provide comments for the report. We authorize its release. Also, as requested, please find enclosed current contact information for the members of our Commission.

I want to express our gratitude to your staff for the professionalism displayed during the audit review. We sincerely look forward to working with your office in the future. If there are any questions or if further information is needed, please feel free to contact me at 803-734-4233.

Best Regards,


Carri Grube Lybarker, Esq.

Enclosures: As stated

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.