

**SOUTH CAROLINA
DEPARTMENT OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 23, 2016

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, 2015, 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 twenty-five 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 sixteen 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 general, 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 (\$100 – general fund, \$18,700 – earmarked fund, and \$500 – restricted fund) and ± 10 percent.

- We made inquiries of management pertaining to the Department'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. Our finding as a result of these procedures is presented in Timeliness of Deposits in the Accountant's Comments section of this report.

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

- We inspected twenty-five selected recorded non-payroll disbursements and five selected purchase card 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 eleven 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 (\$14,600 – general fund and \$17,800 – earmarked fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and 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 five selected new employees and five individuals 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 (\$14,600 – general fund and \$17,800 – 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 and Appropriation Transfers**

- We inspected five selected recorded journal entries and one appropriation transfer 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. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2015, and inspected all 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 the 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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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, 2014, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Timeliness of Deposits, Reporting Packages, and Personal Property Inventory in the Accountant's Comments section of this report.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

We were not engaged to and did not conduct an examination, 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.



George L. Kennedy, III, CPA
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

Condition:

Similar to the condition noted in the prior year State Auditor's Report, five of the combined forty-one receipts tested were not deposited in a timely manner.

Cause:

The prior year report explained that receipts are not always promptly forwarded from the departments who receive them to the finance staff for deposit. In addition, due to the timing of the auditor's reports, the Department did not have adequate time or opportunity to apply corrective action to fiscal year 2015 transactions.

Effect:

Deposits of some receipts were delayed by more than one week which is not consistent with Department or State Policy.

Criteria:

Section 117.1 of the 2015 Appropriation Act requires the remittance of state revenues to the State Treasurer at least once each week, when practical.

Recommendation:

We recommend the Department continue to implement policies and procedures which will ensure timely deposits of all Department receipts.

Management's Response:

We agree with these findings. In FY16 we combined our regulatory programs under the supervision of one Deputy Administrator and staff processing monies share the same supervisor. This reorganization coupled with the FY17 launch of our new licensing database will assist in remedying this deficiency as it will increase our internal auditing capabilities. Further, timeliness of deposits is being added as a specific success criteria on appropriate EPMS documents.

REPORTING PACKAGES

Condition:

Exceptions were noted with the Department's Capital Assets and Operating Leases reporting packages in the State Auditor's fiscal year ended June 30, 2014 report. The following exceptions were noted with those reporting packages, along with compensated absences, during our testing of the Department's fiscal year ended June 30, 2015 reporting packages:

1. The Department didn't file a Capital Assets Reporting Package for fiscal year 2015 despite having capital assets and fiscal year 2015 purchases toward a capital asset which was capitalized in fiscal year 2016.
2. The future minimum lease payments and the contingent rental payments reported on the Department's Operating Leases Reporting Package were both understated.
3. The liability for compensated absences was overstated due to late submission of leave.

Cause:

1. One question was answered incorrectly by the Department on its Master Reporting Checklist. Answering that question correctly would have prompted the Department to file a Capital Assets Reporting Package.
2. A clerical error in reporting future minimum lease payments and contingent rental payments miscoded in the accounting system led to the exceptions on the Operating Leases Reporting Package.
3. The impact on the compensated absences liability, as a result of leave processed for two employees after the Compensated Absences Summary Form was filed, was not reported with the Subsequent Events Reporting Package.

Effect:

1. Capital asset information was not reported by the Department to the Comptroller General's Office, including approximately \$100,000 in fiscal year 2015 payments for an asset capitalized in fiscal year 2016.
2. Future minimum lease payments were understated by approximately \$1,800 and contingent rental payments were understated by approximately \$2,000 as a result of the Operating Lease Reporting Package exceptions.
3. The liability for compensated absences was overstated by \$265 as a result of the exception described above.

Criteria:

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."

Recommendation:

We recommend the Department continue to implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures Manual and reporting package form instructions.

Management's Response:

We agree with the findings. We have implemented a process of setting internal meetings for review of package instructions and Comptroller General's Reporting Manual in preparation for completion of required packages and establishing internal deadlines for workflow, allotting sufficient time for staff preparing the packages and supervisors to review all details.

PERSONAL PROPERTY INVENTORY

Condition:

The Department was cited in the prior year State Auditor's Report for its inventory listing not being dated or approved. As also noted in the prior year, the Department provided an inventory listing which was not dated or approved.

Cause:

Documentation was not sufficient to demonstrate compliance.

Effect:

The annual inventory of Department property as required by section 10-1-140 of the South Carolina Code of Laws could not be verified.

Criteria:

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, states, "The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables".

Recommendation:

We recommend the Department continue the implementation of procedures to ensure and demonstrate compliance with Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended.

Management's Response:

We agree with the findings and have updated processes to provide for an inventory coversheet detailing inventory completion date(s) and signatures of those who completed the inventory as well as supervisors.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on 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, 2014, and dated November 16, 2015. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated Timeliness of Deposits, Reporting Packages, and Personal Property Inventory.

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