

**SOUTH CAROLINA
DEPARTMENT OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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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

November 16, 2015

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 management of 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, 2014, 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 eighteen 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$0 – general fund, \$17,700 – earmarked fund, and \$1,500 – 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 findings as a result of these procedures are presented in Timeliness of Deposits and Fiscal Year Cut-Off of Revenue in the Accountant's Comments section of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected twenty-five 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 eight 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 (\$13,800 – general fund and \$17,400 – 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 two 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 (\$13,800 – general fund and \$17,400 – 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 Interagency Appropriation Transfers**

- We inspected five 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 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, 2014, 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 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.

Non-Payroll Disbursements and Expenditures

- Based on our review, we determined only one non-payroll disbursement was recorded in the account. We inspected the disbursement to determine if it was properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, was a bona fide disbursement of the Office, and was 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 determined if the disbursement was recorded in the proper fiscal year.

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, 2014, 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 findings as a result of these procedures are 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, 2013, to determine if the Department had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages 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-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 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 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than 3 business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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.



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

We noted three out of eighteen revenue transactions tested in our cut-off test of revenue contained receipts that were not deposited in a timely manner. The receipts were deposited between nine and fifty-five days after the date of receipt. We determined receipts were not always forwarded promptly from the departments who receive revenue to the finance staff and as a result, revenue was not deposited timely in accordance with State law.

Proviso 117.1 of the fiscal year 2013 – 2014 Appropriation Act states, “...all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, and the sale of commodities and service...must be remitted to the State Treasurer at least once each week...”.

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

FISCAL YEAR CUT-OFF OF REVENUE

We noted one receipt out of eighteen tested in our cut-off test of revenue was not recorded in the correct fiscal year. The receipt in question was received on June 27, 2014 and deposited on July 1, 2014 and was recorded as a fiscal year 2015 transaction.

The State Treasurer’s Office year-end close-out procedures specify that receipts are to be recorded in the same fiscal year that the cash is received.

We recommend the Department implement procedures to ensure accounting transactions are recorded in the proper fiscal year.

PERSONAL PROPERTY INVENTORY

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”.

The Department provided us with an inventory listing; however, the listing was not approved or dated by a responsible official. In addition, we were unable to verify the inventory completion date reported on the Department’s Capital Assets Reporting Package.

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

REPORTING PACKAGES

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State’s financial statements from agency prepared reporting packages. We determined that the Department submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared and/or misstated. To accurately report the Department’s and the State’s assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General’s Reporting Policies and Procedures Manual states “The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State’s financial statements. The existence of even “small” errors tends to cast doubt on the ability of the State’s internal controls to detect and correct errors. We all must work together to

implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." The following describes the errors noted on certain fiscal year 2014 reporting packages:

Capital Assets Reporting Package

During our testing of the Capital Assets Reporting Package we noted the Department reported \$5,285 in the "Historical Cost – Reported Amount" column instead of in the "Historical Cost – Correct Amount" column on the Reporting of Adjustments and Errors Identified in SCEIS Asset History form (form 3.08.2). According to Department personnel, the amount was reported incorrectly on the form due to agency oversight.

Operating Leases Reporting Package

During our testing of the Operating Leases Reporting Package, we noted the following:

- 1) On Part I – Current Rent Expense of form 3.09.1 (Operating Leases Summary Form – Lessee) the Department overstated contingent rental payments by \$292, understated one time rental payments by \$12,000 and overstated required minimum lease payments by \$11,533. These misstatements resulted in a \$175 understatement of current rent expense. Personnel stated these errors were a result of agency oversight.
- 2) The contingent rental payment overstatement of \$292 noted in 1) above was also overstated on Part II- Leases with Contingent Rents of form 3.09.1.

- 3) On Part V – Leases with Future Minimum Lease Payments of form 3.09.1 the Department overstated current rent expense by \$17,558. The Department included payments for leases that were not required to be reported on this form. As a result of this reporting error, the total future minimum lease payment reported on Part V of form 3.09.1a – Future Minimum Lease Payments Schedule was overstated by \$20,107 for fiscal year 2015 and overstated by \$18,764 for fiscal years 2016 through 2018.

Recommendation

We recommend the Department strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

SECTION B - 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, 2013, and dated July 9, 2014. We determined the Department has taken adequate corrective action on the deficiencies titled Account Coding and Transaction Approval and Documentation. However, we noted additional deficiencies during our testwork which will be reported in a similar finding titled Reporting Packages in Section A of the report.

MANAGEMENT'S RESPONSE

Management's Response to the State Auditor's Draft Report

Finding #1 **TIMELINESS OF DEPOSITS**

Management Response

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

- 1) Coordinating discussions with staff processing monies from regulatory programs to ascertain reasons for delayed submissions to the Accounting Section. Processes and procedures will be updated to implement decided protocol based on these discussions to obtain compliance. Trainings based upon the changes will also be held.
- 2) The Department believes implementation of the agency's new licensing database will also assist in remedying this deficiency as it will increase our internal auditing capabilities. We anticipate all regulatory programs will be on this new system by late FY16, early FY17.

Finding #2 **FISCAL YEAR CUT-OFF REVENUE**

Management Response

We agree with the findings and will correct these oversights by updating our internal procedures to ensure compliance with state law and will specify workflow tasks for the input staff and supervisor to verify the transactions appropriate fiscal year.

Finding #3 **PERSONAL PROPERTY INVENTORY**

Management Response:

We agree with the findings and will correct these oversights by updating policies and procedures to clarify roles of staff in completion of the inventory, timelines for completion, recordation of completion, etc, and otherwise ensure compliance with state law.

Finding #4 **REPORTING PACKAGES**

Management Response:

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

- 1) Setting internal meetings for review of package instructions and Comptroller General's Reporting Manual in preparation for completion of required packages;
- 2) Establishing internal deadlines for workflow, allotting sufficient time for supervisors to review all details; and
- 3) Ensure staff runs reports in SCEIS/BEX analyzer and compare supporting documentation to ensure data is submitted correctly.

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.