

**SOUTH CAROLINA
DEPARTMENT OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2016



George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 18, 2017

Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Consumer Affairs (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

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This report is intended solely for the information and use of the governing body and management 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. However, this report is a matter of public record and its distribution is not limited.



George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Department of Consumer Affairs (R28)**

Revenue

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of Earmarked Fund variations over \$19,200 and 10%.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-one cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Findings

Similar to the condition noted in the prior year Independent Accountant's Report, four of the combined forty-six transactions inspected included receipts which were not deposited in a timely manner. For certain receipts in those four transactions, the time between receipt and deposit ranged from nine to twenty-two business days.

In addition, three of the other receipts inspected were not recorded in the proper fiscal year. The three receipts, recorded in fiscal year 2016, were received in fiscal year 2015.

Management's Response

We agree with these findings. In FY17, DCA implemented new procedures to remind staff of the need to submit deposits in a timely manner. As mentioned in last year's report, we have a new licensing database that will also assist in remedying this deficiency by increasing our internal reporting, tickler and auditing capabilities. All programs should be transitioned onto the system by Quarter 2 of FY19. We will also update procedures for accounting staff to flag checks submitted beyond the required timeframe for reporting and implement quarterly internal audits covering this area.

Cash Disbursements and Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$15,600 and 10% for the General Fund and \$18,800 and 10% for the Earmarked Fund.

Cash Disbursements and Expenditures (Continued)

5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by agency procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by agency procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the agency, properly coded to the general ledger.
 - Disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / verify proper sales/use tax.
6. Randomly select ten non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$15,600 and 10% for the General Fund and \$18,800 and 10% for the Earmarked Fund.
8. Randomly select six regular employee payments and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the agency.
- Agree gross pay to supporting documentation noting all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the agency.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Select all regular bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
10. Randomly select five bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:
 - Employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
 - Employee does not make more than \$100,000 annually.
 - Bonus pay was split between funds according to the ratio of the employee's base salary.

Payroll (Continued)

11. Randomly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the agency's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Randomly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the agency's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
13. Compare the percentage change in personal service expenditures to the percentage change in employer contributions. Obtain an explanation of changes of +/- 10%.
14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of the procedures.

Journal Entries

15. Randomly select twenty-five non-recurring journal entries for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Complete the Appropriation Act work program provided to management noting areas of noncompliance, if any.
17. Confirm compliance with agency-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

18. Obtain copies of all fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect reporting packages to:
 - Determine if preparation was in accordance with Comptroller General Office requirements.
 - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records.

Findings

As a result of our procedures, we identified the following:

Operating Leases Reporting Package – We were unable to verify one lease reported on the Future Minimum Payment Schedule to supporting lease documentation. Another lease reported on the schedule included a future payment amount exceeding the terms of the lease. The reported future minimum lease payments impacted by the exceptions totaled approximately \$2,500.

Accounts Payable – Several discrepancies were noted in the accounts payable balance reported through the reporting package process. The primary discrepancy noted was the inadvertent exclusion of approximately \$3,900 due to misinterpretation of Comptroller General Office instructions requiring the inclusion of individual interfund payables of less than \$100,000 on the Accounts Payable Reporting Package.

Capital Asset – The Department properly capitalized an intangible asset costing more than \$100,000, except for \$7,500 for associated seat licenses purchased prior to the capitalization date, which was expensed instead of being included as part of the book value of the asset.

Management's Response

We agree with the findings. Regarding the Operating Lease Package, we were able to provide lease documentation that was not obtained by the auditors during fieldwork, however we lacked the signed agreement for that lease. We are following up with the vendor for a fully executed copy and will update procedures to require all agency contracts be scanned to a central folder and train staff accordingly.

For the Accounts Payable Package Finding, unfortunately a prior year payable, while correctly entered into SCEIS prior to pulling the proper report, did not appear on the report pulled by DCA or received from the Comptroller General's Office. To address this issue, we are updating procedures to require accounting staff to keep an excel spreadsheet of prior year payables as they are entered into SCEIS for reconciliation at reporting time.

For the Capital Asset Package finding, we misread the guidelines and have updated the entry accordingly.

Composite Reservoir Accounts

19. Obtain a listing of agency composite reservoir accounts and confirm with agency management that the listing is complete.
20. Obtain fiscal year monthly reconciliations for each composite reservoir account and haphazardly select four of the reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
21. Inspect all composite reservoir account 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 agency, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Status of Prior Findings

22. Inquire about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the agency has taken appropriate corrective action.

We determined that the Department has taken adequate corrective action on each of the findings, except where noted in the findings above.

Minutes

23. We will inspect the agency's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.