

**SOUTH CAROLINA DEPARTMENT
OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 13, 2003

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 of Consumer Affairs (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over licenses and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Receipts in the Accountant's Comments section of this report.

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August 13, 2003

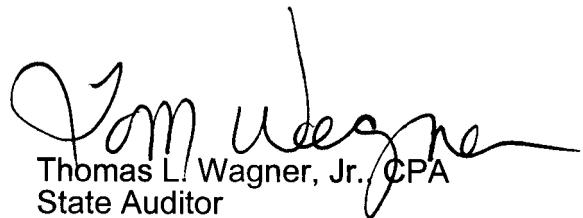
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Procurement and Confidential Fund in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries, and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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5. We tested 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2002, and tested 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 they were accurate and complete. 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 Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2002. Our findings as a result of these procedures are presented in Receipts, Procurement, and Closing Packages in the Accountant's Comments section of this report.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Closing 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 areas, 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 Commissioners and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr. CPA
State Auditor

ACCOUNTANT'S COMMENTS

MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECEIPTS

We tested a sample of thirty deposits and noted five contained receipts for motor club, physical fitness, and mortgage broker licenses which were not deposited in a timely manner. The deposit dates ranged from 7 to 21 working days after receipt.

Part IB of each Appropriation Act (Proviso 72.1.) requires that collections be remitted to the State Treasurer's Office at least once each week (five working days) when practical.

We recommend that the Department implement procedures to ensure that each cash receipt is timely deposited in accordance with State law.

PROCUREMENT

We tested a sample of disbursement vouchers which included nine transactions requiring evidence on the purchase requisition that the price was considered fair and reasonable. None of the nine transactions contained the required notation.

The South Carolina Procurement Code states that purchases under \$1,500 may be accomplished without securing competitive quotes if the prices are considered to be fair and reasonable and it is so noted on the purchase requisition.

We recommend that the Department implement procedures to document on each purchase requisition for purchases under \$1,500 that the price is considered fair and reasonable.

CONFIDENTIAL FUND

During our review of the Department's confidential fund account we determined that the Department included an employee wellness account, which are non-State funds, in the same bank account as its confidential funds.

Management is responsible for ensuring that State assets, including cash, are properly safeguarded. The commingling of State funds with non-State funds weakens internal controls with regards to safeguarding Department cash.

We recommend that the Department withdraw the employee wellness funds from its confidential fund bank account and maintain those separately from State funds.

CLOSING PACKAGES

Introduction

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends assigning the responsibilities for preparation and independent supervisory review of each closing package to knowledgeable and trained employees and recommends performing an effective review of each closing package and the underlying working papers to minimize closing package errors and omissions. To assist in performing effective reviews, the GAAP Manual instructions require a reviewer checklist to be completed for each closing package submitted.

Operating Leases

During our review of the operating lease closing package, we noted that the Department understated future minimum lease payments by \$12,775. The lease payment schedule used to prepare the closing package was amended in March 2002 but Department personnel failed to revise the future minimum lease payment information.

Accumulated Depreciation

We reviewed the accumulated depreciation closing package and noted that the Department understated accumulated depreciation by \$9,436 for one of its five listed assets. The understatement occurred because the Department used an incorrect asset acquisition date. The Department should have reported the acquisition date as fiscal year 2000 instead of fiscal year 2001. Therefore, accumulated depreciation was understated by one year.

GAAP Manual Section 3.9 states to compute depreciation of a capital asset, accountants first determine its estimated useful life. They then prorate the cost of the asset among the fiscal years of its estimated useful life.

Recommendations

We recommend that the Department ensure that the preparer and reviewer of closing packages be thoroughly familiar with the Department data related to the information to be reported on the assigned closing package forms. Each reviewer should perform an effective review of the assigned closing packages. We recommend that each review include completion of the required reviewer checklist; tracing each amount from the form to the supporting documentation (e.g. closing package worksheets) to the Department's accounting records. The reviewer should also determine that all amounts are supported by adequate and accurate documentation. The Department should also make a net correction to increase machinery and equipment accumulated depreciation by \$9,436 on the accumulated depreciation closing package.

MANAGEMENT'S RESPONSE

Department of Consumer Affairs
Management's Response to Accountant's Comments
Office of the State Auditor
For the Year Ended June 30, 2002

RECEIPTS

The Department has established policies and procedures to ensure that cash receipts are deposited timely and at least on a weekly basis as required by state law. These procedures have been in place for a number of years and our accounting department makes a concerted effort to make timely deposits. We would like to note and clarify that checks were not held for 21 days prior to deposit. A closer examination of deposit # 3010 made on 8/13/02 indicates that a total of 70 checks were included in this deposit for the amount \$15,880. We identified only 2 checks, dated 7/25/02 & 7/31/02 that had stale dates. The other 68 checks were deposited within the acceptable time period for depositing cash receipts. And the two checks with stale dates may have been held for extenuating circumstances. A closer review of the other 4 deposits cited, as deficient should indicate similar results as deposit #3010.

In our assessment, the finding as presented is somewhat misleading and may suggest to third parties that we do not have policies and procedures in place to control the timely deposit of cash receipts, which is not the case. However, we do accept the finding and will review our process and these findings further to identify any system control weaknesses including employee negligence or failure to follow instructions.

PROCUREMENT

This finding deals with the stamping of documents, either the purchase requisition or the invoice in many respects. We do not mind stamping documents, but the mere stamping does not mean that the price paid for the goods or services were fair and reasonable. Therefore, the act of stamping documents is nothing more than a formality. The Auditor noted no instances where prices paid during the period of the audit were not fair and reasonable. Additionally, the State Procurement Auditors did not note this deficiency during their examination of the procurement procedures used by the agency.

We take the procurement code seriously and for any and all purchases, the Agency's procurement officer makes a concerted effort to comply with the code, including competitive quotes. Nevertheless, we will stamp either the requisition or the invoice with the notation "Price is considered fair and reasonably."

CONFIDENTIAL FUND

Like most state agencies, the Department has encouraged and supported employee wellness programs. Occasionally, these activities involve fund raising initiatives by employees. Since wellness programs were authorized and encouraged by the General Assembly and the Budget and Control Board, the Department has taken responsibility for safeguarding any funds that were generated. We have operated under the premise that these funds represented Agency funds to be used for the wellness and morale of employees. We have always acknowledged they were not State funds, but did not consider them to be employee funds.

In 1992 when the first fund raising initiative occurred, we contacted the State Treasurer's Office about an additional bank account and they suggested we use the Confidential Fund bank account in lieu of paying service charges on another bank account. We have been operating under this arrangement since that time. The State Auditor's Office has audited this account on numerous occasions and this has never been an issue before now.

We disagree with the description used by the Auditor that we were "commingling State funds with non-State funds." We did not commingle funds. We have always maintained separate accounting records to differentiate wellness transactions from those transactions that are considered state transactions and have reconciled on a monthly basis the balances for each account. Although we disagree with the description, "commingling of funds," we have accepted the finding and have implemented the recommendation to open an outside bank account for the wellness funds.

Closing Packages – Accumulated Depreciation

We concur with this finding and we will make the net correction to the accumulated depreciation account to correct the understatement of \$9,436. We will also increase our supervisory review to ensure that similar errors and omissions are detected.

Closing Packages – Operating Leases

We also concur with this finding relating to the understatement of future minimum lease payments in the amount of \$12,775. As indicated in the accountant's comments, the Department renegotiated the lease for office space in March of 2002. The renegotiation provided for a revised payment schedule for the next seven years. Through oversight we failed to update our operating lease payment schedule for the changes in rent over the next seven years, resulting in the understatement of \$12,775. As recommended, better care will be taken during the preparation of closing packages and we will also increase our supervisory review to ensure that similar errors and omissions are detected.

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