

**SOUTH CAROLINA DEPARTMENT
OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2011

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 9, 2012

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, 2011, 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, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$18,000 – earmarked fund, \$1,000 – restricted fund, and \$100 – federal 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 were chosen randomly. Our findings as a result of these procedures are presented in Timeliness of Deposits and Revenue Cut-Off in the Accountant's Comments section of this report.

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, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$9,900 – general fund, \$17,800 – earmarked fund, and \$0 – federal 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 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 (\$9,900 – 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 ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Termination Pay in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, 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. 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, 2011, and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the bank statements 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 bank statements, 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

- 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 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 Agency's compliance with Appropriation Act general and agency specific provisos.

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, 2011, 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. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2011, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance and Account Coding in the Accountant's Comments section of this report.

9. **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, 2008, to determine if the Agency had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2009 and 2010.

Our findings as a result of these procedures are presented in Timeliness of Deposits and Account Coding in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
August 9, 2012

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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.

TIMELINESS OF DEPOSITS

We selected twenty-five receipt transactions to determine if the Department deposited cash receipts timely. Based on our procedures we determined that several receipts comprising one deposit were deposited nine working days after receipt. A similar finding was included in the State Auditor's Report for the fiscal year ended June 30, 2008 (we applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009 and 2010). The receipts were not deposited timely because the receiving divisions did not promptly forward the receipts to the finance staff.

South Carolina Code of Laws Section 11-13-120 states, "All state departments, boards, bureaus, commissions or other state agencies charged with the collection of any taxes, licenses, fees, interest or any income to the State shall, with ordinary business promptness, deposit the same when collected with or to the credit of the State Treasurer." Section 89.1 of the fiscal year 2010-11 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, the sale of commodities and services... must be remitted to the State Treasurer at least once each week."

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

ACCOUNT CODING

We tested the Department's schedule of federal financial assistance for the fiscal year ended June 30, 2011 and noted that the Department recorded grant funds received directly from the federal grantor using general ledger account 4890100000 - Federal Grant Sub-Contract State Agencies. The State Auditor's report on the Department for the fiscal year ended June 30, 2008 reported a similar finding.

The Comptroller General's Office provides general ledger account definitions to help agencies properly classify accounting transactions. The definitions include an account code for recording revenue received directly from the federal grantor.

We recommend the Commission develop and implement procedures to ensure that the individual(s) responsible for recording accounting transactions and those reviewing and approving the transactions are utilizing the Comptroller General's Office definitions to help ensure proper coding.

REVENUE CUT-OFF

We tested twenty-five randomly selected cash receipt transactions to ensure that the transactions were recorded in the proper fiscal year. Three of the transactions were not recorded in the correct fiscal year. The receipts in question were received on or before June 30, 2011 and deposited on or after July 1, 2011. The transactions were recorded as fiscal year 2012 transactions.

The State Treasurer 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 that the Department implement procedures to ensure that accounting transactions are recorded in the proper fiscal year.

PERSONAL PROPERTY INVENTORY

Section 10-1-140 of the South Carolina Code of Laws 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."

In our review of the Department's compliance with this law, we noted that the Department did not perform the required annual inventory of personal property.

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

TERMINATION PAY

Based on our review of support documentation we determined that one of six employees that terminated employment during the fiscal year ended June 30, 2011 was overpaid one day's wages, or approximately \$96. Department personnel explained that they improperly paid the former employee one day's wages because they did not detect that the employee was in leave without pay status when processing the Department payroll.

Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving a salary from the State, which is not due or persons employed by the State from paying salaries or monies not due to State employees.

We recommend the Department develop and implement procedures to ensure that payments to employees are accurate and that errors are detected and corrected timely.

REPORTING PACKAGES

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 reporting packages disclosed the following exceptions:

Compensated Absences Reporting Package

The annual leave balance for three employees selected for testing was incorrect because the annual leave balance did not include employee leave requests which were processed after the compensated absences closing package was prepared and submitted.

Grants and Contribution Revenues Reporting Package

We determined that the Department overstated its grants receivable balance reported to the Comptroller General at June 30, 2011 by \$6,089. Based on the tests performed we determined that the Department should not have reported a grants receivable balance on the closing package. We determined that the Department had erroneously reported total federal revenue received during fiscal year 2011 as the grants receivable balance.

Timely Submissions

The Department did not submit all reporting packages timely. We determined that four reporting packages were submitted between one and twenty-two days late.

Recommendation

We recommend that the Department develop and 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.

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.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The State Auditor's Office letter of instruction for the schedule of federal financial assistance (SFFA) requires that the beginning fund balance for each grant agree to the ending fund balance for the previous fiscal year or that any differences be explained. Additionally, the letter of instruction explains that transactions or adjustments related to a prior year should be shown as "other additions" or "other deductions."

The Department's SFFA reported one grant. Based on our review of the SFFA we found the following:

- The beginning fund balance reported on the SFFA did not agree with the prior year ending balance. Even though Department personnel were able to explain the difference they were unable to provide documentation to support their explanation.
- The Department netted a transaction related to prior period with current year receipts. The transaction should have been reported as an "other deduction".

We recommend that the Department carefully follow the State Auditor's Office letter of instructions when completing the SFFA.

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, 2008, and dated May 20, 2009. We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2009 and 2010. We determined that the Department has taken adequate corrective action on each of the findings except for Object (Account) Coding and Timeliness of Deposits.

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

September 24, 2012

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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

Dear Mr. Gilbert:

Please allow this letter to serve as the response to your preliminary draft of the report resulting from the agreed-upon procedures to the accounting records of the Department for the fiscal year ended June 30, 2011. Before addressing each comment, I would like to provide some background into agency changes occurring prior to FY11 that likely contributed the findings.

DCA received a more than \$1.6 million or 75% base appropriations cut from FY09-FY12. The budget reductions not only occurred at the General Fund level, but other funds decreased as well as the industries regulated by the Department were affected by the economic downturn. In FY10, DCA implemented a reduction in force resulting in the loss of 40% of its staff. The decline in funding also prohibited the agency from filling vacant positions, including for a Director of Administration. This resulted in DCA personnel taking on new, additional duties.

Regarding the actual findings, please see our comments below:

Timeliness of Deposits: We accept the Accountant's Comments. When this issue was initially raised to the agency, policies and procedures were implemented to address it. While deposits are made at least bi-weekly, unfortunately, lack of adequate staffing levels contributed to this error. Discussion on potential updates to the policies and procedures; however, have begun.

Account Coding: The Auditor's report indicates that this issue was previously raised. DCA utilized the same procedures since FY 03 for the referenced grant funding and is unaware of it being mentioned in past reports. Nonetheless, we accept the Accountant's Comments and will take appropriate steps to ensure proper coding.

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Revenue Cut-Off: We accept the Accountant's Comments. DCA will implement measures to ensure appropriate accounting going forward.

Personal Property Inventory: We accept the Accountant's Comments and have begun discussions to develop and implement procedures to comply with Section 10-1-140.

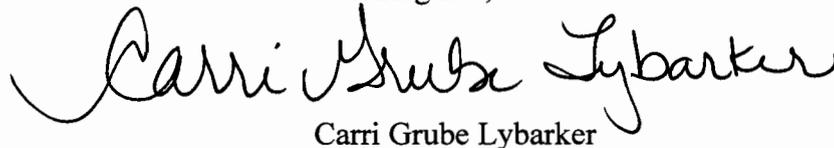
Termination Pay: We accept the Accountant's Comments and have updated our operating procedures to prevent a similar oversight in the future.

Reporting Packages: *Compensated Absences*- We accept the Accountant's Comments and have updated our operating procedures to prevent staff from entering leave after submission of the closing package. *Grants and Contribution Revenues* – We accept the Accountant's Comments and will perform a more detailed review of items to ensure accurate reporting. *Timely Submissions* - We accept the Accountant's Comments. This error was recognized internally last year, thus DCA implemented measures to ensure timely reporting going forward.

Schedule of Federal Financial Assistance: We accept the Accountant's Comments and will perform a more detailed review of items to ensure accurate reporting.

Thank you for the opportunity to provide comments for the report, and we authorize such release. As requested, please find enclosed current contact information for the members of our Commission. We appreciate the professionalism of your staff during the engagement and look forward to working with you all in the future.

Best Regards,

A handwritten signature in cursive script that reads "Carri Grube Lybarker". The signature is written in black ink and is positioned above the printed name.

Carri Grube Lybarker

Enclosures: As stated

4 copies of this document were published at an estimated printing cost of \$1.60 each, and a total printing cost of \$6.40. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.