

**SOUTH CAROLINA RESIDENTIAL
BUILDERS COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1992

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INDEPENDENT AUDITOR'S REPORT ON AGREED-UPON PROCEDURES

January 7, 1993

The Honorable Carroll A. Campbell, Jr., Governor
and
Members of the Commission
South Carolina Residential Builders Commission
Columbia, South Carolina

We have applied certain agreed-upon procedures, as discussed below, to the accounting records of the South Carolina Residential Builders Commission for the fiscal year ended June 30, 1992. These procedures were performed solely to assist you in evaluating the performance of the Commission in the areas addressed, and our report is not to be used for any other purpose.

1. We reviewed available information related to the system of internal accounting controls over receipts and disbursements to gain an understanding of such controls.
2. We tested a sample of recorded receipts to determine if these receipts were properly described and classified in the accounting records, collection and retention or remittance were supported by law, and accounting procedures and internal accounting controls over the tested receipt transactions were adequate to provide proper control over these transactions.
3. We tested a sample of recorded disbursements to determine if these disbursements were properly described and classified in the accounting records, represented bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if accounting procedures and internal accounting controls over the tested disbursement transactions were adequate to provide proper control over these transactions.
4. We tested a sample of recorded payroll disbursements to determine if payroll and fringe benefits were properly described, classified, and distributed in the accounting records, persons on the payroll were bona fide employees, payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements, and accounting procedures and internal accounting controls over the tested payroll transactions were adequate to provide proper control over these transactions.

The Honorable Carroll A. Campbell, Jr., Governor
and
Members of the Commission
South Carolina Residential Builders Commission
January 7, 1993

5. We agreed the amounts on the accompanying schedule of expenditures - budget and actual - budgetary general fund to the accounting records of the Commission.
6. We reviewed copies of all closing packages submitted to the State Comptroller General to determine if they were prepared in accordance with the Office of the Comptroller General GAAP Closing Procedures Manual, if the amounts were reasonable, and if they agreed with the supporting workpapers and accounting records.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the adequacy of the Commission's accounting procedures and internal accounting controls over cash receipts and disbursements, the accuracy of the Commission's accounting for revenues and expenditures, the propriety of expenditures, the accuracy of the GAAP closing packages, or the Commission's compliance with prescribed laws and regulations.

Our findings regarding deficiencies noted and our recommendations for correcting such deficiencies are presented in the Auditor's Comments section of this report.

In connection with the procedures referred to above, except as set forth in the Auditor's Comments section of this report, no matters came to our attention that caused us to believe that the Commission's accounting records might require adjustment. Had we performed additional procedures or had we conducted an audit of the Commission's financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the objectives and procedures specified above and does not extend to any financial statements of the Commission, taken as a whole.

This report is intended solely for the use of the South Carolina Residential Builders Commission and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Commission, is a matter of public record.



Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION
Schedule of Expenditures -
Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1992

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:			
Personal Services	\$504,626	\$462,126	\$ 42,500
Employer Contributions	137,842	107,845	29,997
Contractual Services	49,063	46,077	2,986
Supplies and Materials	76,238	70,953	5,285
Fixed Charges and Contributions	57,279	56,396	883
Travel	82,185	82,000	185
Equipment	31,273	29,373	1,900
Interest Charges	66	66	-
Transportation	<u>48</u>	<u>34</u>	<u>14</u>
Total Expenditures	<u>\$938,620</u>	<u>\$854,870</u>	<u>\$ 83,750</u>
Lapsed to the State General Fund	<u>\$ -</u>	<u>\$ 78,528</u>	<u>\$(78,528)</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION
Notes to Schedule
June 30, 1992

NOTE 1 - BUDGET POLICY

The South Carolina Residential Builders Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary component unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual component units. The General Assembly enacts the budget through passage of specific line-item (object of expenditure) appropriations by program within component unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the component entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Agencies may request transfers of appropriations among object classes and/or among programs within the same budgetary fund. Modifications to the State General Fund budget must be approved by the State Budget and Control Board. As operating conditions change, agencies may request revisions of expenditure budgets in other than State General Fund appropriation accounts. Such changes require the State Budget and Control Board's review, the Governor's approval, and the Joint Appropriation Review Committee's concurrence. However, the Commission only expends State General Fund monies.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for fiscal year 1992 to 1992 appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedule of expenditures - budget and actual - budgetary general fund presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on an object of expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures."

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION
Notes to Schedule
June 30, 1992

NOTE 2 - STATE APPROPRIATIONS

The 1991-92 original appropriation corresponds to the amount presented in Section 113 of Part I of the Appropriation Act and is net of the 3.3% reduction mandated by Proviso 14.98.

The following is a reconciliation of the Appropriation Act as originally enacted by the General Assembly to amounts available for the Commission's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1992.

Original Appropriation	\$973,858
State Budget and Control Board Mid-Year Budget Reductions of 1%, 2%, and 1% (Proviso 129.6)	(38,697)
State Budget and Control Board Employer Contributions Allocation for Employee Health Insurance (Proviso 129.22)	3,463
Appropriation Reduction Mandated by Proviso 14.90 for Property Insurance Premium Rate Reduction	<u>(4)</u>
Revised Appropriation - Legal Basis	<u>\$938,620</u>

NOTE 3 - EXPENDITURES RECORDED IN SUBSEQUENT FISCAL YEAR

The Commission recorded \$5,222 of supplies and materials expenditures pertaining to fiscal year 1990-91 as payments in fiscal year 1991-92. Adjustments to record these expenditures in the proper fiscal year resulted in a reduction of recorded expenditures and a net increase in the favorable budget variance on Schedule 1 of \$5,222.

State law requires agencies to expend State funds in strict accordance with the line-item appropriations in the Appropriation Act in the year for which appropriated.

AUDITOR'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES, OR REGULATIONS PER SECTION 11-9-100 OF THE 1976 SOUTH CAROLINA CODE OF LAWS, AS AMENDED

Section 11-9-100 of the 1976 South Carolina Code of Laws requires the State Auditor to report material weaknesses in an agency's internal accounting system and violations of State Laws, Rules, or Regulations by an agency. In addition, the Code Section requires the agency to correct the deficiencies in the accounting system and to prevent the recurrence of any cited violation. We have evaluated the condition described in this section under the provisions of Section 11-9-100 and have identified it as a material weakness in internal control and/or a violation of State Laws, Rules, or Regulations and subject to the provisions of Section 11-9-100.

MOTOR VEHICLE USAGE

The Commission leases several vehicles from the State Budget and Control Board - Division of Motor Vehicle Management (DMVM). We analyzed the Commission's use of these leased vehicles. In several instances, we noted that the base mileage usage charge exceeded the actual mileage driven. We estimated that, on average, for each month of the 1992 fiscal year three of the Commission's nine vehicles did not meet DMVM's minimum monthly mileage usage charge. Furthermore, we calculated that the Commission expended approximately \$3,800 more in travel expenditures than it would have if the agency had reimbursed employees for personal vehicle mileage rather than lease State-owned vehicles.

Management is responsible for ensuring that it uses State resources in an efficient and effective manner. South Carolina Code of Laws Section 1-11-220 requires State government to maximize the cost-effective management of State-owned vehicles and to eliminate the reimbursable use of personal vehicles when that use is more costly than the use of State vehicles.

We recommend that the Commission study its usage of State-owned vehicles and adjust the size of its fleet as required to achieve travel cost savings.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses under the provisions of Section 11-9-100 of the 1976 South Carolina Code of Laws, as amended.

FIXED ASSET REPORTING ON GAAP CLOSING PACKAGES

The State Comptroller General's Office obtains GAAP (generally accepted accounting principles) data from closing packages for the State's financial statements. Proviso 8.5 of each Appropriation Act states that the State Comptroller General is authorized to issue accounting policy directives regarding compliance with GAAP. In order to accurately report the Commission's and the State's assets and liabilities, the GAAP Closing packages forms must be accurate. Furthermore, Section 1.8 of the GAAP Closing Procedures Manual states that the agency head and finance director are responsible for submitting closing packages that are accurate, complete, and completed in accordance with instructions.

The June 30, 1992, year-end balance on the Commission's fixed assets closing package did not agree to that on the Commission's fixed asset detail listing. We found that the GAAP closing package was understated because the Commission failed to include approximately \$6,500 in assets which were acquired in fiscal year 1989. The omission occurred because the employees responsible for completing the closing package did not understand the GAAP requirements for recording and reporting fixed assets. Errors in the fiscal year 1991 fixed asset closing package were also reported in the Agency's fiscal year 1991 State Auditor's Report dated June 4, 1992.

We recommend the Commission record the omission as a "net correction to prior year balances" adjustment on its fiscal year 1993 fixed assets closing package. In addition, we recommend that those responsible for preparing and reviewing the GAAP closing packages become familiar with the reporting requirements and instructions of the Office of the Comptroller General GAAP Closing Procedures Manual.

BARS ACCOUNT STRUCTURE

During our review of the Commission's year-end revenue and expenditure reconciliations, we noted that its chart of accounts did not include all of the STARS revenue and expenditure object codes used by the Commission to process transactions in the Statewide accounting and reporting system (STARS). The Commission used three revenue accounts to record eight different STARS revenue codes. In addition, the Commission did not establish a new expenditure account to record interest charges but recorded the transactions as travel expenditures in the Commission's accounting system.

The Commission does maintain a manual receipts ledger which is used by management to analyze revenue in more detail than that in the BARS revenue ledger. However, the manual ledger is not reconciled to either the Agency's BARS accounting system or to STARS.

The Comptroller General's Policies and Procedures Manual (STARS Agency User's Manual) Section 2.1.7.20.C. explains that certain errors are not directly detected by the system because they result from the incorrect use of legitimate accounting codes such as subfund, mini-code, and major/minor object codes. These can only be detected in monthly reconciliations between the agency's records and STARS balances. The STARS Manual requires that agencies at a minimum reconcile cash, revenue, and expenditures by subfund on a monthly basis.

Although it is not a requirement for agencies to maintain their accounting systems and perform reconciliations at the same level of detail as STARS, it would assist the Commission with its monthly reconciliations. Maintaining its accounting system at a greater level of detail would also provide the Commission with useful managerial reports and provide it with the additional assurance that the information on the reports represents amounts that have been processed by the Agency's accounting system and reconciled to STARS. We recommend that the Commission update its BARS chart of accounts to include all detail account codes used in the STARS system and that it perform monthly reconciliations at the subfund and account level.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Auditor's Comments section of the State Auditor's Report on the South Carolina Residential Builders Commission for the fiscal year ended June 30, 1991, and dated June 4, 1992. We determined that the Commission has taken adequate corrective action on each of the specific findings noted therein. However, the Agency's fiscal year 1992 fixed asset closing package contained other errors which are reported in Section B of this report.

MANAGEMENT'S RESPONSE



DIRECTOR

OFFICE OF THE DIRECTOR

COMMISSIONERS

JOHN T. WATKINS

CHAIRMAN

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION

J. ALLEN BRODIE

ROBERTA COMBS

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MICHAEL G. WILLIAMS

May 21, 1993

Ms. Margaret C. Stilwell, CPA
Office Of The State Auditor
P. O. Box 11333
Columbia, S. C. 29211

Dear Ms. Stilwell:

We have your letter of April 21, 1993, in which you enclosed a preliminary draft copy of the results of the audit for the fiscal year ending June 30, 1992. We have reviewed the draft and are authorizing the release of the report.

In response to the auditor's comments and recommendations, we are listing recommendations that are in place for the fiscal year 1993-1994:

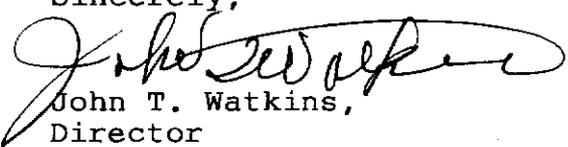
We have set up all the revenue accounts in which the accounts are set up for the Specialty Contractors. Our Bars chart of accounts have been updated which will include all of its normal account classifications.

The reversal on the fixed assets closing package for 1990 was not reversed to cover adjustment made in 1989. This reversal will be made in closing package for fiscal year 1993.

During fiscal year 1991-1992, the Commission was undergoing realignment of investigators' districts; one car was in shop for some time. However, adjustments have been made to take care of this.

We are enclosing names and addresses of Board Members.

Sincerely,


John T. Watkins,
Director

JTW/mm
Enclosure

33 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$50.16. The FY 1991-92 Appropriation Act requires that this information on printing costs be added to the document.