

**SOUTH CAROLINA DEPARTMENT
OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
DEPOSITS	6
EXPENDITURE CUTOFF	6
PAY CALCULATION	7
EMPLOYER CONTRIBUTIONS	8
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 30, 2008

The Honorable Mark Sanford, Governor
and
Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
Columbia, South Carolina 29250

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, 2007, 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 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 (\$10,600 – general fund, \$17,300 - earmarked fund, \$800 – restricted fund, and \$600 – 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 selected were chosen randomly. Our finding as a result of these procedures is presented in Deposits 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 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 at the subfund and major object code 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 (\$20,500 – general fund, \$17,300 – earmarked fund, and \$400 – federal fund) and ± 10 percent.

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

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, including employee payroll deductions, 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 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 inspected payroll transactions for all 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 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 compared current year payroll expenditures at the subfund and major object code 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 (\$20,500 – general fund and \$17,300 – 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 findings as a result of these procedures are presented in Pay Calculation and Employer Contributions in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected all recorded journal entries and 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.

We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2007, and inspected 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 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 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 Honorable Mark Sanford, Governor
and
Members of the Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
May 30, 2008

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **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 and agency specific provisos.

Our finding as a result of these procedures is presented in Employer Contributions in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, 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.

We found no exceptions as a result of the procedures.

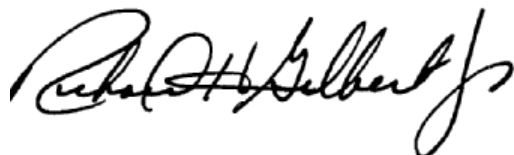
10. **Status of Prior Findings**

- We inquired about the status of the finding 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, 2006, to determine if Agency had taken corrective action.

We found no exceptions as a result of the procedures.

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 Department and is not intended to be and should not be used by anyone other than these specified parties.



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.

DEPOSITS

During our test of cash receipts, we identified five deposits which contained receipts that were not deposited in a timely manner. We determined that receipts are not always forwarded promptly by the receiving divisions to the finance staff which causes deposits to be late.

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, either at his office in the State Capitol or in such bank or banking institution within the State as shall be designated by the State Treasurer. Further, Section 72.1 of the fiscal year 2006-2007 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

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

EXPENDITURE CUTOFF

During our cutoff test of expenditures, we identified one voucher for \$417 which the Department paid in the incorrect fiscal year. The charge, which was for travel occurring during fiscal year 2007-2008, was recorded as a fiscal month 13, fiscal year 2006-2007 transaction.

Section 72.2 of the fiscal year 2007-2008 Appropriations Act states that all funds appropriated from the general fund of the State are appropriated to meet the ordinary expenses of State government for fiscal year 2007-2008.

We recommend that the Department strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

PAY CALCULATION

The Department made a pay calculation error which resulted in an overpayment of \$12 on an employee's first paycheck. The employee worked one day during a pay period having twelve work days; however, the Department calculated the employee's pay using an eleven work day pay period.

Section 8-11-30 of the South Carolina Code of Laws states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due..." In addition, independent reviews of pay calculations and independent verifications of pay rates, work hours, hire dates, etc., increase the probability that errors will be detected and corrected in a timely manner and the payroll checks will be processed for the correct amounts.

We recommend that the Department carefully follow its established policies and procedures regarding reviews of payroll related calculations to ensure information used in all employee calculations is accurate and pay computations are correct.

EMPLOYER CONTRIBUTIONS

The Department did not pay a proportionate share of employer contributions from the general and earmarked funds in fiscal year 2007. General fund employer contributions were 28.1% of general fund personal service expenditures while earmarked fund employer contributions were 21.6% of earmarked fund personal service expenditures. In response to our inquiry, the Department explained that because of an anticipated year-end shortage in earmarked funds, the Department transferred personal service expenditures of \$97,750 and State retirement contributions of \$50,918 from the general fund to the earmarked fund. We determined that the Department did not consider the effect that the transfer would have on the allocation of personal service and fringe benefit cost between funds when it processed the transfer. As a result the costs were not proportionate.

Section 8-11-194 of the South Carolina Code of Laws states, in part the following: "Any agency of the State Government whose operations are covered by funds from other than general fund appropriations must pay from such other sources a proportionate share of the employer costs of retirement, social security, worker's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees."

We recommend that the Department establish procedures to ensure that employer contributions are distributed proportionately among its funds in accordance with State law.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2006 and dated August 22, 2007. We determined that the Department has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE



Brandolyn Thomas Pinkston
Administrator

The State of South Carolina

Department of Consumer Affairs

3600 FOREST DRIVE
P.O. BOX 5757
COLUMBIA, S.C. 29250-5757

Celebrating Over 30 Years of Public Service

June 16, 2008

Mr. Richard Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 120
Columbia, SC 29201

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 engagement relative to the accounting records of the Department of Consumer Affairs for the fiscal year ended June 30, 2007. We would like to address the following findings, which we believe are minor and could have been addressed as management discussion points.

Deposits: We have been getting mixed messages from your office over the years regarding the immediate deposit of cash receipts. It was our understanding that the compliance testing of cash receipts to determine if deposits were made on a weekly basis would be based on the performance of the finance staff and not that of the receiving division. In some instances the receiving division may be required to hold a check for a regulatory license until the applicant has met all the criteria for licensure. At times the check may be held for more than a week. Nevertheless, we accept the Accountant's Comments and will comply with the recommendations.

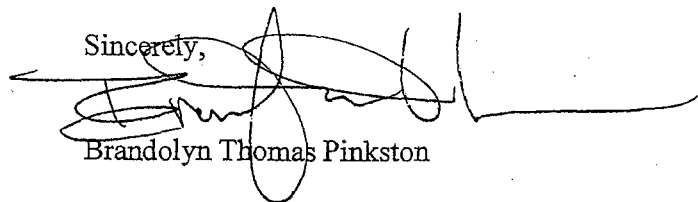
Expenditure Cutoff: We accept the Accountant's Comments and will comply with the recommendations.

Pay Calculation: We accept the Accountant's Comments and will comply with the recommendations.

Employer Contributions: We accept the Accountant's Comments and will comply with the recommendations.

Our review of the report is complete, and we authorize the release of the report. Attached is a list of current Commissioners and their addresses. We commend you and your staff for the professionalism demonstrated during this engagement and look forward to working with you and your staff in the future.

Sincerely,



Brandolyn Thomas Pinkston

Commissioners
Lonnie Randolph, Jr.
Chairman
Columbia
Mark Hammond
Secretary of State
Columbia
Barbara B. League
Greenville
Louis Mayrant, Jr.
Pineville
Tony Macomson
Cowpens
Wayne K. Sims
Columbia
C. Wayne Powell
Gaffney
David Campbell
Columbia
Carole C. Wells
Woodruff

TELEPHONE (AREA CODE 803)
ADMINISTRATOR
734-4197
ACCOUNTING
734-4264

PUBLIC INFORMATION
734-4191
E-mail: SCDCA@DCA.STATE.SC.US
www.sconsumer.gov

CONSUMER ADVOCACY
734-4200
(1) FAX: 734-4287
(2) FAX: 734-4286

INVESTIGATORS
734-4236
ENFORCEMENT
734-4236

CONSUMER COMPLAINTS
734-4200
WATS 1-800-922-1594
VOICE/TT - 1-800-735-2905

TELETIPS (803) 734-4215 OR 1 (888) 734-4215 (TOLL FREE IN S.C.)

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.