

**SOUTH CAROLINA
DEPARTMENT OF CONSUMER AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 5, 1998

The Honorable David M. Beasley, Governor
and
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, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 23 percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
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 and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was five percent of the aggregate amount of all recorded non-payroll disbursements. Our findings as a result of these procedures are presented in Use Tax and Order of Expenditure of Funds in the Accountant's Comments section of this report.

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was two percent of the aggregate amount of all recorded payroll disbursements. We found no exceptions as a result of the procedures.
4. We tested 100 percent of recorded journal entries and interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. We found no exceptions as a result of the procedures.
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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items 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, 1997, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Department's accounting records or 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. Our findings as a result of these procedures are presented in Use Tax and Order of Expenditure of Funds in the Accountant's Comments section of this report.

The Honorable David M. Beasley, Governor
and
Commission on Consumer Affairs
South Carolina Department of Consumer Affairs
August 5, 1998

8. We reviewed the status of the deficiency described in the finding reported in the Auditor's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 1996, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Department and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Department. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Department and submitted to the State Comptroller General and 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. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through ten of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

Schedule of Expenditures -
 Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$1,367,138	\$1,349,815	\$ 17,323
Employer Contributions	356,921	333,154	23,767
Other Operating	<u>516,798</u>	<u>408,816</u>	<u>107,982</u>
Total Expenditures	<u>\$2,240,857</u>	<u>\$2,091,785</u>	<u>\$149,072</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 24,800	\$ 24,776	\$ 24
Employer Contributions	4,500	4,276	224
Other Operating	<u>210,700</u>	<u>155,355</u>	<u>55,345</u>
Total Expenditures	<u>\$240,000</u>	<u>\$184,407</u>	<u>\$55,593</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$1,391,938	\$1,374,591	\$ 17,347
Employer Contributions	361,421	337,430	23,991
Other Operating	<u>727,498</u>	<u>564,171</u>	<u>163,327</u>
Total Expenditures	<u>\$2,480,857</u>	<u>\$2,276,192</u>	<u>\$204,665</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. 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 unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's 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 State funds and to authorize and/or appropriate the use of all other 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 schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Department's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$2,095,090
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 17C.19.)	<u>40,741</u>
Revised Appropriation - Legal Basis	2,135,831
Plus: 1996 Appropriation Brought Forward	<u>105,026</u>
Legal Basis Appropriation Available for 1997	
Expenditures	<u>\$2,240,857</u>

Pursuant to Proviso 72.44. of the 1997 Appropriation Act, the Department brought forward \$69,640 of unspent State General Fund appropriations from the prior year into the current fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority. Also, pursuant to Proviso 61.3. of the 1996 Appropriation Act, the Department carried forward \$35,386 of unexpended, encumbered appropriated funds at fiscal year-end for the Consumer Advocacy Expert Witness/Assistance Program into the current fiscal year to meet contractual obligations existing at June 30 and not paid by July 31, 1996.

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the Department carried forward \$149,072 of unspent State General Fund appropriations from the current year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

ACCOUNTANT'S COMMENTS

SECTION A - 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 an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

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

USE TAX

Section 12-36-1310. (A) of the South Carolina Code of Laws states, “A use tax is imposed on the storage, use, or other consumption in this State of tangible personal property purchased at retail for storage, use, or other consumption in this State, at the rate of five percent of the sales price of the property ...” We determined that the Department did not remit use tax to the State on goods purchased from an out-of-state vendor. The error occurred because Department personnel are not familiar with State law applicable to the declaration and remittance of use tax when the vendor fails to charge South Carolina sales tax.

We recommend the Department’s written procurement procedures explain sales and use tax requirements and prescribe procedures to ensure that use tax is calculated and remitted to the State in accordance with applicable State law.

ORDER OF EXPENDITURE OF FUNDS

We noted that the Department generally expended its State budgetary general fund monies prior to expending other budgeted funds revenues it receives from other sources. The Department expended the majority of its State appropriations for operating expenses, such as contractual services, supplies, fixed charges, travel, and equipment during the first nine months of the fiscal year. Then the Department began paying operating costs from funds received from the collection of mortgage loan broker registration fees, athlete agent fees, and staff leasing services fees.

Section 11-9-125 of the 1976 South Carolina Code of Law, as amended, requires that “Federal and other funds must be expended before funds appropriated from the general fund of the State, to the extent possible ...”

We recommend that the Department expend available funds from other sources before it expends State appropriated funds.

SECTION B – STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Auditor's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 1996, and dated May 14, 1997. We determined that the Department has taken adequate corrective action regarding documentation of receipt dates for deposits.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

September 17, 1998

Mr. Thomas Wagner, CPA, State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

We have reviewed and evaluated the preliminary draft of the State Auditor's report on agreed-upon procedures applied to the accounting records of the Department of Consumer Affairs for the fiscal year ended June 30, 1997. We find the report to be fairly presented and may be released for public inspection. We have enclosed a current listing of Commission members and their addresses.

Enclosed on a separate page is our response to the matters discussed in the Accountant's Comments. We concur with the Accountant's Comments and will implement corrective actions promptly.

We look forward to working with you and your staff in the future. We also extend congratulations to you on your appointment as State Auditor.

Sincerely,

Philip S. Porter
Administrator

Enclosure

USE TAX

We concur with the Accountant's recommendations regarding use tax. We will develop policies and procedures that will allow us to identify out-of-state purchases where the use tax is applicable and make the appropriate 5% tax payment to the Department of Revenue.

ORDER OF EXPENDITURE OF FUNDS

The Department collects fees from loan brokers and staff leasing services companies. The enabling legislation for these professions and occupations authorize the Department to collect licensing fees to pay the cost of regulating these industries. Renewal license fees for loan brokers are collected in October of each fiscal year and staff leasing biennial renewal fees are collected in October of every odd numbered calendar year. Because appropriated funds as well as other funds now have carry forward provisions there is no incentive to reserve other funds for carry forward purposes. To the extent possible we will implement procedures that will require the Accounting Department to expend "other funds (fees)" before or in conjunction with the expenditure of State Appropriations.