

**SOUTH CAROLINA RESIDENTIAL HOME BUILDERS COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1990

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INDEPENDENT AUDITOR'S REPORT ON AGREED-UPON PROCEDURES

June 13, 1991

The Honorable Carroll A. Campbell, Jr., Governor
and
Board of Commissioners
South Carolina Residential Home Builders Commission
Columbia, South Carolina

We have applied certain agreed-upon procedures, as discussed below, to the accounting records of the South Carolina Residential Home Builders Commission for the fiscal year ended June 30, 1990. 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 relating to the system of internal 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 controls over the tested cash 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, represent bonafide disbursements of the Commission, and were paid in conformity with State laws and regulations and accounting procedures and internal 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 bonafide employees, payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements, and accounting procedures and internal controls over the tested payroll transactions were adequate to provide proper control over these transactions.

The Honorable Carroll A. Campbell, Jr., Governor
and
Board of Commissioners
South Carolina Residential Home Builders Commission
June 13, 1991

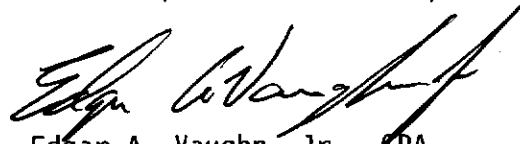
5. We attempted but were unable to agree the amounts on the accompanying schedule of expenditures paid - budget and actual - all budgeted funds prepared from the records of the Comptroller General to the accounting records of the Commission.

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 controls over cash receipts and disbursements, accountability for revenues, propriety of expenditures, or the extent to which funds have been expended in compliance with prescribed laws and regulations.

Our findings regarding any 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 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 Home 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 HOME BUILDERS COMMISSION

Schedule of Expenditures Paid -

Budget and Actual - All Budgeted Funds -

For the Year Ended June 30, 1990

	<u>Budgetary General Fund</u>		
	<u>Legal</u> <u>Basis</u> <u>Budget</u>	<u>Actual on</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Expenditures:			
Personal Services	\$342,852	\$342,837	\$ 15
Employer Contributions	77,928	76,131	1,797
Contractual Services	46,948	45,878	1,070
Supplies and Materials	27,693	26,724	969
Fixed Charges and Contributions	55,392	52,645	2,747
Travel	68,394	66,008	2,386
Equipment	9,896	9,545	351
Transportation	<u>50</u>	<u>49</u>	<u>1</u>
Total Expenditures	<u>629,153</u>	<u>619,817</u>	<u>9,336</u>
Lapsed to the State General Fund	<u>-</u>	<u>9,336</u>	<u>(9,336)</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA RESIDENTIAL HOME BUILDERS COMMISSION

Notes to Schedule

June 30, 1990

NOTE 1 - BUDGET POLICY

The South Carolina Residential Home 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 includes all budgeted resources. The General Assembly enacts the budget through passage of specific line-item (object of expenditure) appropriations by program within component unit. 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 non-State appropriation funds. 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 1990 to 1990 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 paid - budget and actual - all budgeted funds is intended to present 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 HOME BUILDERS COMMISSION

Notes to Schedule
June 30, 1990

NOTE 2 - STATE APPROPRIATIONS

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, 1990.

Original Appropriation	\$612,265
Allocations from the State Budget and Control Board:	
Compensation Increases	7,685
Rent Increase	3,830
Equipment Purchases	1,648
Travel Budget Reduction by the State Budget and Control Board Mandated by Proviso 14.81	<u>(2,556)</u>
Revised Appropriation - Legal Basis	622,872
Plus: 1989 Capital Reserve Fund Appropriations Brought Forward to 1990:	
Employee Compensation	2,767
Health Insurance Surcharge	<u>3,514</u>
Legal Basis Appropriation Available for 1990 Expenditures - Schedule 1	<u>\$629,153</u>

The appropriations from the Capital Reserve Fund authorized by the joint resolution passed in the 1989 General Assembly session were available effective thirty days after the completion of the 1988-89 fiscal year. With respect to the appropriation allocation for the lump-sum payments to State-funded employees, effective on the first pay day after November 30, 1989, each State employee who had been in continuous State service since June 2, 1989, was eligible to receive a one-time lump-sum payment. Full-time employees who earn more than \$20,000 received \$143 and those who earn \$20,000 or less received \$286. With respect to the appropriation allocation for the Health Insurance Reserve Fund deficiency surcharge of \$251, the allocation was based on the agency's actual July 1989 State-funded employee count of health plan participants.

SOUTH CAROLINA RESIDENTIAL HOME BUILDERS COMMISSION

Notes to Schedule

June 30, 1990

NOTE 3 - REMITTANCES TO THE STATE GENERAL FUND

State law requires certain amounts to be collected by the Commission and remitted intact to the State General Fund with a further stipulation that the total of such revenues must, at a minimum, equal 115% of State appropriations of the South Carolina Residential Home Builders Commission. The following is a summary of receipts collected by the Commission and remitted to the State General Fund during the year ended June 30, 1990:

Professional and Occupational Examination Fees	\$195,535
Professional and Occupational License Fees	617,150
Miscellaneous Revenues	<u>1,532</u>
	<u>\$814,217</u>

AUDITOR'S COMMENTS

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

The conditions described in this section have been evaluated under the provisions of Section 11-9-100 of the 1976 South Carolina Code of Laws, as amended, and identified as material weaknesses in internal control and/or violations of State Laws, Rules or Regulations and subject to the provisions of Section 11-9-100.

These conditions, in our opinion, constitute material weaknesses as cited in Code Section 11-9-100 and therefore require corrective action by the South Carolina Residential Home Builders Commission.

RECORDS RETENTION

The Commission could not locate certain supporting documentation and accounting records which we requested during our engagement:

- (1) No fiscal year 1989 Comptroller General reports;
- (2) No fiscal year 1990 interdepartmental transfer (IDT) forms;
- (3) Two of the five appropriation transfer forms (STARS Form 30) selected for testing; and
- (4) Invoices to support insurance payments for fiscal year 1990.

Because of poor filing and record retention practices, the Commission cannot readily locate important documentation. In fact, the Commission does not have a written record retention schedule/policy in effect.

Good accounting policies and practices require that all transactions be properly documented and retained in the Commission's records. Furthermore, Section 30-1-80 of the 1976 South Carolina Code of Laws, as amended, states in part that "The head of each agency, the governing body of each subdivision, and every public records custodian shall cooperate with the Archives in complying with the provisions of this chapter and to establish and maintain an active, continuing program for the economical and efficient management of the records of the agency or subdivision."

We recommend that the Commission place more emphasis on proper and adequate record retention practices. Supporting documentation and accounting records should be maintained in an organized manner in order to facilitate easy access. We also recommend that the Commission work with the South Carolina Department of Archives and History to establish a record retention schedule/policy which requires that Commission records are kept for an adequate and reasonable period of time or until audited by independent auditors.

GENERAL LEDGER RECONCILIATION

The Commission began using the Basic Agency Reporting System (BARS) computer software package during fiscal year 1989. This system was designed for small state agencies to record and process accounting information. During fiscal year 1990, the Commission's general ledger and books of original entry, cash receipts register and cash disbursements register, were not accurately maintained by accounting personnel on a daily/monthly basis. During our audit of the Commission's fiscal year 1988 financial statements, we noted that the Commission did not timely update the general ledger and did not perform many of the essential monthly reconciliations between its books and the Comptroller General's STARS reports. These deficiencies were brought to the agency's attention at that time. During the current engagement, we determined that the Commission had not reconciled its revenues, expenditures, and ending balances to the Comptroller General's records. Also, the fiscal year 1990 general ledger contained many posting errors and was not up-to-date. Therefore, the amounts on the schedule of expenditures paid - budget and actual - all budgeted funds for the fiscal year ended June 30, 1990, could not be agreed to the Commission's accounting records.

The Statewide Accounting and Reporting System (STARS)

Manual Section 2.1.7.20C. states, in part, the following:

The only way...errors can be detected is for agency accounting personnel to perform regular monthly reconciliations between their agency's accounting records and STARS balances shown on STARS reports. Such reconciliations provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper.

To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- o Performed at least monthly on a timely basis (i.e., shortly after month-end).
- o Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- o Signed and dated by the preparer.
- o Reviewed and approved in writing by an appropriate agency official other than the preparer.

Revenues, expenditures, and ending cash balances for each subfund must be included in these monthly reconciliations.

Furthermore, the 1976 South Carolina Code of Laws, as amended, Section 11-9-125 states in part that state agencies shall "reconcile federal and other fund accounts at the end of each state fiscal year and maintain those records for audit purposes."

We recommend that the Commission maintain up-to-date and accurate records including the general ledger and supporting registers and prepare written monthly reconciliations with the Comptroller General's STARS reports on a timely basis.

PROCUREMENT CODE REGULATIONS

For four of the 16 disbursement vouchers tested, the Commission did not comply with the State Consolidated Procurement Code. In two instances, the required supporting documentation for procurements from \$500.01 to \$1,499.99 was omitted while, in another case, the Commission did not prepare the required sole source documentation. In addition, we noted that the Commission lacked documentation stating that purchases less than \$500 were fair and reasonable. Therefore, the Commission could be making purchases which are not in the State's best economic interest.

The South Carolina Consolidated Procurement Code Regulations Section 19-445.2100 Subsection B. Item 2 requires for purchases of \$500.01 to \$1,499.99 "Solicitations of verbal or written quotes from a minimum of two qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the purchase requisition." Furthermore, Item 1 of this section allows for small purchases not in excess of \$500 without securing competitive quotes if the prices are considered reasonable and the purchasing officer marks

and signs on the purchase requisition "Price is fair and reasonable." Also, the 1976 South Carolina Code of Laws, as amended, Section 11-35-1560, states the following for sole source procurements:

A contract may be awarded for a supply, service or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer above the level of the procurement officer, determines in writing that there is only one source for the required supply, service or construction item.

We recommend that the Commission adhere to all of the State's purchasing and procurement laws and regulations to ensure that the needs of the Commission are met in the most economical and efficient manner required and purchases are properly documented.

MANAGEMENT'S RESPONSE



DIRECTOR

JOHN T. WATKINS

CHAIRMAN

GERALD E. MOORE, JR.

VICE-CHAIRMAN

M. STEWART MUNGO

OFFICE OF THE DIRECTOR

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J. ALLEN BRODIE

ROBERTA COMBS

MARION GANDY

LEVIS GILSTRAP

CLARENCE W. HOGAN

March 24, 1992

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 March 6, 1992 in which you enclosed a preliminary draft copy of the results of the audit for the fiscal year ending June 30, 1990. 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 procedures in which we have in place for fiscal year 1991-1992.

RECORD RETENTION:

- Item #1 - Comptroller General's reports are kept in separate ledger along with the Agency's reports.
- Item #2 - All IDTs are kept together in separate file folder.
- Item #3 - Appropriation transfers are kept in a separate file.
- Item #4 - Insurance invoices are kept together with supporting reconciliation.

We have requested an opinion from the Attorney General's office as to the length of an adequate and reasonable time of retention of records. Their opinion will be adhered to.

GENERAL LEDGER RECONCILIATION:

All monthly reports are run and all reconciled to the C. G.'s reports each month. All reconciliations are in an understandable format with supporting working papers maintained for audit purposes for fiscal year 1991-1992.

- 2 -

Ms. Margaret C. Stilwell, CPA
March 24, 1992

PROCUREMENT CODE REGULATIONS:

All supporting documentation for purchases \$500.01 to \$1,499.99 are being kept with the documentation that the price is to the advantage of the State with (2) phone quotes. Purchases of \$500.00 or less are being documented that they are fair and reasonable.

SOLE SOURCE:

The "Sole Source" procurement law Section 11-35-1560 will be carried out for 1991-1992 if we have a need to purchase through the "Sole Source".

The South Carolina Residential Builders Commission will adhere to all State Purchase and Procurement Laws in the future.

We are enclosing names and addresses of Board Members.

I have reviewed the comments and procedures and at this we feel that we have these all in place.

Sincerely,



John T. Watkins,
Director

JTW/mm

Enclosure

33 copies of this document were published at an estimated printing cost of \$2.07 each, and a total printing cost of \$68.31. The FY 1991-92 Appropriation Act requires that this information on printing costs be added to the document.