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*South Carolina Department of Commerce*

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon  
Procedures for the year ended June 30, 2014

*State of South Carolina*



*Office of the State Auditor*

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July 20, 2015

The Honorable Nikki R. Haley, Governor  
and  
Mr. Robert M. Hitt III, Secretary of Commerce  
South Carolina Department of Commerce  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Commerce for the fiscal year ended June 30, 2014, was issued by Brown CPA, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/trb

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of State Auditor and management of South Carolina Department of Commerce (the "Department"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, 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 Department'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 Department's accounting records. The scope was based on agreed upon materiality levels \$520,000 – earmarked fund, \$160,000 – restricted fund, and \$160,000 – federal fund and  $\pm 10$  percent.

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

## 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 Department'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, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$250,000 – general fund, \$170,000 – earmarked fund, \$180,000 – restricted fund, and \$150,000 – federal fund and  $\pm 10$  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 Department'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 Department'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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$250,000 – general fund, \$170,000 – earmarked fund, \$180,000 – restricted fund, and \$150,000 – federal fund and  $\pm 10$  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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

#### 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 Department's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. 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 Department's policies and procedures and State regulations.

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

#### 6. **Composite Reservoir Accounts**

##### *Reconciliations*

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly 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 State Treasurer's Office monthly 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.

##### *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 Department'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 obtained all monthly reconciliations prepared by the Department.

##### *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 Department'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.

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

#### 7. **Appropriation Act**

- We inspected documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general and Department specific provisos.

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

#### 8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014 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 findings as a result of these procedures are presented in the Accountant's Comments section of this report.

#### 9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, 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.

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

#### 10. **Status of Prior Findings**

There were no findings reported in the Accountant's Comments section of the Independent Accountant's Agreed-Upon Procedures report for the year ended June 30, 2013.

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, the South Carolina Office of the State Auditor, and the Secretary and management of the Department of Commerce and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South Carolina  
July 7, 2015

## Accountant's Comments

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.

### SECTION A - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

#### **Reporting Packages – Capital Assets**

*Condition* – The Department of Commerce's procedures and controls were inadequate to ensure proper reporting of capital assets in the year end capital asset reporting package.

*Context* – The Department of Commerce incorrectly reported and classified property owned by the Palmetto Railways, a division of the Department, in their year-end reporting package. The Palmetto Railways is considered a blended component unit that is classified as an enterprise fund and accounted for as a business-type activity. The Department of Commerce recorded the land acquisition made by Palmetto Railways in their capital asset ledger and reported the acquisition in the Department's governmental activities capital assets reporting package.

*Cause* – There is a lack of adequate review by Department of Commerce Supervisor staff.

*Effect* – Overall capital assets as recorded are overstated.

*Criteria* – Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. Section 1.7 of the Comptroller General's Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages that are accurate and prepared in accordance with instructions, complete, and timely." This requirement acts as a control over financial reporting for the State's financial statements.

*Recommendation* – We recommend that additional procedures and controls be developed and implemented by the Department of Commerce to ensure that the financial information provided in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above. Additionally, if the Department of Commerce continues to record capital assets of Palmetto Railways within their capital asset ledger, we recommend that policies and procedures be implemented to identify and report separately to the Comptroller General's Office, such capital assets related to Palmetto Railways.

## **Reporting Packages – Prepaid Expenses**

*Condition* – The Department of Commerce’s procedures and controls were inadequate to ensure proper reporting of prepaid expenses in the year end prepaid expenses reporting package.

*Context* – The Department of Commerce incorrectly overstated the overall total for prepaid expenses and the allocation of that total between current and non-current.

*Cause* – There is a lack of adequate review by Department of Commerce Supervisor staff.

*Effect* – Overall prepaid expenses as reported were overstated.

*Criteria* – Internal control procedures affect an agency’s ability to process financial transactions that are authorized and accurate. Section 1.7 of the Comptroller General’s Reporting Package Procedures Manual states, “Each agency executive director and finance director are responsible for submitting to the Comptroller General’s Office reporting packages that are accurate and prepared in accordance with instructions, complete, and timely.” This requirement acts as a control over financial reporting for the State’s financial statements.

*Recommendation* – We recommend that additional procedures and controls be developed and implemented by the Department of Commerce to ensure that the financial information provided in reporting packages are reported accurately in accordance with Section 1.7 of the procedure’s manual referenced above.

## Attachment A



**Nikki R. Haley**  
Governor

**SOUTH CAROLINA**  
DEPARTMENT OF COMMERCE

**Robert M. Hitt III**  
Secretary

July 10, 2015

Mr. Richard H. Gilbert, Jr., CPA  
Interim State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

This letter is in response to the findings from Agreed Upon Procedures report for the period ending June 30, 2014 for the South Carolina Department of Commerce (SCDOC).

**Reporting Package – Capital Assets**

SCDOC believes it had followed the initial guidance provided by the Office of Comptroller General (OCG) related to this transaction. Nonetheless, SCDOC will work with the OCG to properly report this property in next year's capital asset closing package.

**Reporting Packages – Prepaid Expenses**

SCDOC agrees with the recommendations related to this finding and will incorporate additional training related to this closing package.

It is our commitment to continue to be good stewards of the taxpayer's dollars while ensuring that our financial reporting is accurate and timely.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Huffman".

Chris Huffman  
Chief Financial Officer