
South Carolina Department of Commerce

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon Procedures
for the year ended June 30, 2007

State of South Carolina



Office of the State Auditor

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

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October 4, 2007

The Honorable Mark Sanford, Governor
and
Mr. Joe E. Taylor, Jr., Secretary
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, 2007, 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, 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 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 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 Department's accounting records. The scope was based on agreed upon materiality levels \$5,300 – general fund, \$170,000 – earmarked fund, \$150,000 – restricted fund, and \$310,000 – federal fund and ± 10 percent.
- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.

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

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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 South Carolina Department of Commerce, 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, 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 \$120,000 – general fund, \$140,000 – earmarked fund, \$150,000 – restricted fund, and \$340,000 – federal fund and ± 10 percent.

The individual transactions selected were chosen systematically. 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, including employee payroll deductions, 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 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 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 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 recorded payroll expenditures at the subfund and major object code 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 \$120,000– general fund, \$140,000 – earmarked fund, \$150,000 – restricted fund, and \$340,000 – federal 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 ± 15 percent to ensure that payroll expenditures were classified properly in the Department's accounting records. The individual transactions selected were chosen systematically. 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 subjectively. 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 South Carolina Department of Commerce 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 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 Department's accounting records and/or in STARS. The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

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

Act general and Department specific provisos.
Our finding as a result of these procedures is presented 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 from the Department's previous agreed-upon procedures report for the fiscal year ended June 30, 2006, to determine if the Department had taken adequate corrective action.

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

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
September 27, 2007

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 South Carolina Department of Commerce (the "Department") require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

SECTION A –VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The conditions described in this section have been identified as a violation of State Laws, Rules or Regulations.

Cash Receipts and Revenue / Appropriation Act – Untimely Deposit of Receipts

The Department did not timely deposit receipts. Proviso 72.1 of the State Appropriations Act specifies that all revenues must be remitted to the State Treasurer at least once each week. During our testing of cash receipts we determined that a deposit made on July 14, 2006 contained a receipt which was received June 26, 2006. The Department should have recorded and deposited the transaction in the prior fiscal year.

We recommend that the Department develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that receipts are deposited timely and in accordance with the Department's policies and State Law.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments Section of the Independent Accountant's Report on Applying Agreed-Upon Procedures at the Department of Commerce for the fiscal year ended June 30, 2006, and dated September 29, 2006. The following describes the status of the prior year comment.

Prior Year Comment

During the testing of cash receipts two transactions out of twenty five tested revealed that checks received by the Department were not deposited within seven calendar days after being received. One of the transactions contained five checks totaling \$10,000 which should have been recorded in the prior fiscal year. The Department is required by the Appropriation Act to make deposits within seven calendar days of receipt.

Status

Similar finding in section A of current year report.

Attachment A



Mark Sanford
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Joe E. Taylor, Jr.
Secretary

October 2, 2007

BROWN, CPA, LLC
Mr. Matt Brown
P.O. Box 3288
Irmo, South Carolina 29063

Dear Mr. Brown:

This letter is in response to the Schedule of Findings in the Agreed Upon Procedures audit for the period ending June 30, 2007 for the South Carolina Department of Commerce.

Untimely Deposits of Receipts:

Management agrees that receipts should be deposited within seven days of receipt to the Department. It is the policy that all receipts stamped received in Finance will be deposited within seven days and the Finance Office strictly adheres to this policy. This finding applies to the Department and not just the Finance Office and in particular to the *Enterprise Zone* program. This program requires approval of an application prior to the application fees being deposited. The Enterprise Zone committee meets once a month to discuss approvals and then receipts are sent to the Finance Office after the approvals. Management will review this program policy and work to exempt this program from the statewide policy through the Comptroller General's Office.

We are very pleased with the Department's audit for Fiscal Year 2007 and the Administrative staff deserves a lot of credit for this exceptional audit. We appreciate your willingness to offer advice and to assist us throughout the year with questions.

Our commitment is to be a good steward of the taxpayer's dollars while ensuring that our financial reporting is accurate and timely.

Sincerely,

A handwritten signature in black ink that reads "Mandy M. Kibler".

Mandy M. Kibler
Director of Administration
South Carolina Department of Commerce