
South Carolina Department of Commerce

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon
Procedures for the year ended June 30, 2011

State of South Carolina



Office of the State Auditor

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December 15, 2011

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, 2011, 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, 2011, in the areas addressed. The Department 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 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 \$160,000 – earmarked fund, \$1,300,000 – restricted fund, and \$360,000 – federal fund and \pm 10 percent.

Our finding as a result of these procedures is presented 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 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 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 \$93,000 – general fund, \$90,000 – earmarked fund, \$1,600,000 – restricted fund, and \$220,000 – federal fund and \pm 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 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 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 \$93,000 – general fund, \$90,000 – earmarked fund, \$1,600,000 – restricted fund, and \$220,000 – 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 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 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 transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **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.

We found no exceptions as a result of the procedures.

7. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2011 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.

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

8. **Schedule of Federal Financial Assistance**

- **Schedule of Federal Financial Assistance** We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2011, 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.

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
November 16, 2011

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 require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The condition described in this section has been identified as violations of State Laws, Rules or Regulations.

Closing Package Testwork – Attorney General Authorization

Comment –The Department did not obtain approval from the Attorney General's Office before incurring legal expenses from a private attorney. The Department subsequently obtained approval from the Attorney General's Office, but not prior to receiving the legal services.

Section 11-35-1260 of the South Carolina Code of Laws as amended states, "No department or agency of the State government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

Recommendation – We recommend that the Department ensure that personnel responsible for procuring goods and services are familiar with applicable State laws, rules and regulation.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

Revenue Testwork

Comment – As a result of our comparison of current year recorded revenues to prior year recorded revenues we became aware that there was a misclassification at the account level. The Department overstated sale of services account #4480020000 by \$787,936, the amount should have been reported as Nonrecurring Operating Transfers account #4890020000.

Recommendation – We recommend that the Department periodically review detail accounting records for misclassifications and data entry mistakes. Such items should be identified and corrected throughout the year.

Attachment A

Nikki R. Haley
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Robert M. Hitt III
Secretary

November 30, 2011

BROWN, CPA. LLC
Mr. Matt Brown
Post Office 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, 2011 for the South Carolina Department of Commerce.

The department will take the necessary steps to correct the items mentioned in the report.

It is the absolute commitment of the South Carolina Department of Commerce to continue to be good stewards of the taxpayer's dollars while ensuring that our financial reporting is accurate and timely. The Department appreciates your willingness to offer advice and assistance throughout the year.

Sincerely,



Chris Huffman
Chief Financial Officer
South Carolina Department of Commerce