
South Carolina Department of Commerce

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon
Procedures for the year ended June 30, 2009

State of South Carolina



Office of the State Auditor

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December 10, 2009

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, 2009, 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, 2009, 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 \$6,000 – general fund, \$49,000 – earmarked fund, \$200,000 – restricted fund, and \$730,000 – 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. We found no exceptions as a result of the procedures.

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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 \$140,000 – general fund, \$140,000 – earmarked fund, \$95,000 – restricted fund, and \$710,000 – 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 \$140,000 – general fund, \$140,000 – earmarked fund, \$95,000 – restricted fund, and \$710,000 – 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 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 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, 2009, 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 systematically. 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.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2009 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 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, 2009, 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, 2008, to determine if the Department had taken adequate corrective action.

Our conclusion 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
November 30, 2009

ACCOUNTANT'S COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

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.

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

GAAP Closing Packages

The Office of the Comptroller General (CG) obtains certain Generally Accepted Accounting Principles (GAAP) data for the State’s financial statements from agency prepared closing packages because the State’s accounting system (STARS) is on a budgetary basis.

We determined that the Department submitted to the CG a closing package that was incorrectly prepared and/or misstated. To accurately report the Department’s and the State’s assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General’s GAAP Closing Procedures Manual (GAAP Manual) states that “The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State’s financial statements. The existence of even “small” errors tends to cast doubt on the State internal control structure’s ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General’s Office or auditors detect errors, it means that your agency’s system of internal control could be stronger”. Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. The following describes the error noted on a fiscal year 2009 closing packages submitted to the Office of the Comptroller General:

Capital Assets During the testing of the Capital Assets additions it was noted that machinery and equipment additions included individual items that are below the \$5,000 individual item threshold established for capitalization in section 3.8 of the GAAP Manual.

We recommend that the Department take greater care in the preparation and review of closing packages and attempt to complete the packages well in advance of the due dates. Completing the closing packages early will provide supervisory staff additional time to review and self correct mistakes prior to submitting the packages to the Office of the Comptroller General.

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, 2008, and dated September 30, 2008. The following describes the status of the prior year comment.

Prior Year Comment

Status

Non-Payroll Disbursements and Expenditures

Corrective Action Taken

The Department charged \$784 to fiscal year 2008 appropriations for vehicles leased during May 2007. The Department documented that the invoice was received July 18, 2007. However, the invoice from the South Carolina Budget and Control Board Division of Operations was dated June 14, 2007. The Department processed the invoice for payment on July 20, 2007, subsequent to the South Carolina Comptroller General's Office cut-off date of July 17, 2007 for fiscal year 2007 expenditures.

The Department should establish procedures to ensure that invoices are paid timely and in the proper fiscal year as required by law.

Payroll Disbursements and Expenditures

Corrective Action Taken

During the testing of employee final pay it was determined that the final pay for one out of five employees tested was miscalculated. It was determined that the individual was overpaid by approximately \$300 due to a miscalculation of the number of days worked during the final pay period. Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive a salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due.

We recommend that the Department more closely supervise and review the initial and final pay calculations for those employees being hired and terminated.

GAAP Closing Packages

Corrective Action Taken

Capital Assets During the testing of the Capital Assets Summary Form it was noted that the 2008 beginning of year balances did not agree with the end of year balances reported on the 2007 Capital Assets Summary Form. Further, it was noted that for construction in process completed during fiscal year 2008 was improperly

reported on the form as a direct addition to capital assets when it should have reported it as a reclassification out of construction in process and into capital assets.

GAAP Closing Packages

Corrective Action Taken

Accounts Payable, Significant Miscellaneous Commitments, and Grant / Contribution Receivables and Deferred Revenue During the testing of these closing packages it was noted that amounts reported as accounts payable at June 30, 2008 was inconsistent between the closing packages. Additionally the Grant Analysis Worksheet within the Grant / Contribution Receivables and Deferred Revenue closing packages was improperly completed as the closing packages did not include as a reconciling item the accounts payable as of June 30, 2007. This resulted in the Grants Receivable amount being overstated by approximately \$1,814,000.

ATTACHMENT A



Mark Sanford
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Joe E. Taylor, Jr.
Secretary

December 11, 2009

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, 2009 for the South Carolina Department of Commerce.

GAAP Closing Packages

Capital Assets:

Management understands and concurs with the recommendation related to the finding in the Capital Assets Closing Package. The agency will continue to tag low value assets from \$1,000 - \$5,000; however, steps are being taken to correct the fixed asset balances so that only those assets requiring capitalization will be reported on the Closing Package.

The Department appreciates your willingness to offer advice and to assist us throughout the year with questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Huffman", is written over a horizontal line.

Chris Huffman
Chief Financial Officer
South Carolina Department of Commerce