
South Carolina Department of Commerce

Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

June 30, 2006

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 2, 2006

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, 2006, 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

I 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, 2006, 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, I 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**

- I inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- I inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- I 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.
- I made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- I compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- I observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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

2. Non-Payroll Disbursements and Expenditures

- I inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- I inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- I compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- I compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

3. Payroll Disbursements and Expenditures

- I 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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- I 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.
- I inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- I 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.
- I compared current year recorded payroll expenditures to those of the prior year; 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

4. Journal Entries, Operating Transfers and Appropriation Transfers

- I 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

5. General Ledger and Subsidiary Ledgers

- I 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen systematically. I found no exceptions as a result of the procedures.

6. Reconciliations

- I obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, 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 they were accurate and complete. For the selected reconciliations, I 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 the Department's accounting records and/or in STARS.

The reconciliations selected were chosen systematically. I found no exceptions as a result of the procedures.

7. Compliance

- I confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Department personnel and/or observation of Department personnel performing their assigned duties the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2006.

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

8. Closing Packages

- I obtained copies of all closing packages as of and for the year ended June 30, 2006 prepared by the Department and submitted to the State Comptroller General. I inspected them to determine if they were prepared in accordance with the Comptroller

General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

I found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

- I obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Department and submitted to the State Auditor. I inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; in the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

I found no exceptions as a result of the procedures.

10. Status of Prior Findings

- I inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section from the Department's previous agreed-upon procedures report for the fiscal year ended June 30, 2005, to determine if adequate corrective action has been taken.

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

I was not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my 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 29, 2006

ACCOUNTANT'S COMMENTS

SECTION A – MATERIAL WEAKNESSES AND /OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the Department require that I plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

Cash Receipts and Compliance Finding – Untimely Deposit of Receipts

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.

I recommend that Department develop and implement written control policies and procedures to strengthen internal controls over cash receipts and revenues to ensure that revenue is recorded in the proper fiscal year and receipts are deposited within seven days in accordance with State Law.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, I reviewed the status of corrective action taken on each of the findings 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, 2005, and dated October 28, 2005. The following is the status of each prior year comment.

<u>Prior Year Comment</u>	<u>Status</u>
Accounts Payable Closing Package and Significant Miscellaneous Commitments Closing Package – Misreporting of Grants Awarded	Corrective Action Taken
Grant / Contribution Revenues Closing Package – Misclassification between Deferred Revenue and Current Receivables	Corrective Action Taken
Untimely Deposit of Cash Receipt	See Current Year Comment in Section A
Reconciliations – Failure to Timely Perform	Corrective Action Taken
Journal Entries – Explanation Brief and Inadequate	Corrective Action Taken

ATTACHMENT A



Mark Sanford
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Joe E. Taylor, Jr.
Secretary

October 10, 2006

Mr. Matthew A. Brown, CPA, LLC
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, 2006 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 2006 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