

South Carolina Department of Commerce

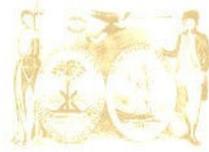
Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

June 30, 2005

State of South Carolina



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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November 15, 2005

The Honorable Mark Sanford, Governor  
and  
Mr. Robert Faith, 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, 2005, was issued by Matthew A. 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 that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA, State Auditor  
and  
Mr. Robert Faith, Secretary  
South Carolina Department of Commerce  
Columbia, South Carolina

I have performed the procedures described below, which were agreed to by the South Carolina Office of the 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, 2005, 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, 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. I found no exceptions as a result of the procedures.

**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. My finding as a result of these procedures is presented in the Journal Entries comment in the Accountant's Comments section of this report.

#### **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, 2005, 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. My finding as a result of these procedures is presented in the Reconciliations comment in the Accountant's Comments section of this report.

#### **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 2005.

My finding as a result of these procedures is presented in the Untimely Deposit of Receipts comment in the Accountant's Comments section of this report.

#### **8. Closing Packages**

- I obtained copies of all closing packages as of and for the year ended June 30, 2005 prepared by the Department and submitted to the State Comptroller General. I

Mr. Thomas L. Wagner, Jr., CPA, State Auditor  
and  
Mr. Robert Faith, Secretary  
South Carolina Department of Commerce  
October 28, 2005

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.

My findings as a result of these procedures are presented in the Accounts Payable Closing Package and Significant Miscellaneous Commitments Closing Package and the Grant / Contribution Revenues Closing Package comments in the Accountant's Comments section of this report.

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

- I obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, 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; 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.

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

- I inquired about the status of the deficiencies described in the findings reported in the Schedule of Findings and Questioned Costs resulting from the Department's previous audit for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

My finding as a result of these procedures is presented in Section C 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 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.

*Matthew A. Brown CPA, LLC*

Irmo, South Carolina  
October 28, 2005

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

#### Accounts Payable Closing Package and Significant Miscellaneous Commitments Closing Package

During the testing of the original closing packages for accounts payable and significant miscellaneous commitments it was determined that the Department increased accounts payable and reduced significant miscellaneous commitments for all amounts anticipated to be spent during the following fiscal year for grants that had been awarded as of year-end. As a result accounts payable was significantly overstated and the closing package for significant miscellaneous commitments was understated.

Good business practices and accounting principles generally accepted require the Department to record all liabilities existing at fiscal year-end. Accounts payable at fiscal year-end should represent a complete presentation of unpaid authorized current obligations that arose from the purchase of goods or services on or before fiscal year-end.

I recommend that the Department of Commerce devote additional time in preparing and reviewing closing packages to insure compliance with Office of the Comptroller General's *GAAP Closing Procedures Manual*.

#### Grant / Contribution Revenues Closing Package

During the testing of the original closing package for Grant / Contribution Receivables and Deferred Revenue it was determined that the Department improperly showed deferred revenue as current receivables and current receivables as deferred revenue.

Additionally, the Department did not include within the closing package reconciliation amounts for grant payables. Under the terms of the grant agreements, the Department is reimbursed by the Federal Government for grant expenses. By not including grant payables as part of the reconciliation the Department failed to recognize the reimbursement due from the Federal Government. As such, the amount recorded for grants receivable was improperly calculated.

Both of these findings were cited in the prior year's schedule of findings.

I recommend that the Department of Commerce devote additional time in preparing and reviewing closing packages to insure compliance with Office of the Comptroller General's *GAAP Closing Procedures Manual*.

#### 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 two checks was the transfer of cash between JEDA to the Department in the amount of \$2,000,000 which was deposited nine days subsequent to receipt. Another check received by the Department for \$500 was deposited after 10 days subsequent to receipt. 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 all receipts are deposited within seven days in accordance with State Law.

### **SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL**

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

#### Reconciliations

During the testing of reconciliations it was observed that seven monthly reconciliations of the Department's accounting records to the Comptroller General's reports were not prepared and reviewed within 14 days of the "run date" as indicated on the Office of Comptroller General's reports. It was noted that four monthly reconciliations between the Department's accounting records to the Comptroller General's records were prepared thirty plus days subsequent to the "run date" as indicated on the Office of Comptroller General's reports. Further, a separate reconciliation was signed however not dated as to when reviewed.

The reconciliation of the Department's records to the Comptroller General's is a critical control in maintaining the integrity of the Department's and the State's accounting records. I recommend that policies and procedures be established requiring the signed and dated preparation and review of monthly reconciliations within two weeks of the "run date" as indicated on the Office of Comptroller General's reports.

#### Journal Entries

During the testing of journal entries it was observed that the explanation used for the purpose of the correcting journal entries was brief and inadequate. As a result, without detailed analysis attached to each entry, it is difficult to understand the reasoning for the correcting journal entries being made.

I recommend that the Department implement procedures requiring that the preparer provide a better description explaining the nature and purpose of each journal entry, thereby providing the reviewer of the journal entry a better understanding why it was necessary to make the journal entry.

### **SECTION C – STATUS OF PRIOR COMMENTS**

During the current engagement, I reviewed the status of corrective action taken on each of the findings reported in the Schedule of Findings and Questioned Costs of the previous Independent Accountant on the Department of Commerce for the fiscal year ended June 30, 2004, and dated March 23, 2005. The following is the status of each prior year finding.

<b><u>Prior Year Finding</u></b>	<b><u>Status</u></b>
Accounts Payable Understated	Corrective Action Taken
Error in Capital Assets Closing Package	Corrective Action Taken
Error in Grants Receivable and Deferred Revenue Closing Package	See Current Year Comment in Section A.
Error in Operating Lease Closing Package	Corrective Action Taken
Outstanding Commitments Overstated	Corrective Action Taken
Support Not Received for Capital Asset Deletions	Corrective Action Taken
Grant Payments Made Prior to Contract Extension	Corrective Action Taken
Inadequate Monitoring Procedures – Community Development Block Grants / State’s Program – CFDA#14.228	Corrective Action Taken

**ATTACHMENT A**



Mark Sanford  
Governor

**SOUTH CAROLINA**  
DEPARTMENT OF COMMERCE

Robert A. Faith  
Secretary

November 3, 2005

Matthew A. Brown, CPA, LLC  
P.O. Box 3288  
Irmo, South Carolina 29063

Dear Mr. Brown:

This letter is in response to the Agreed-Upon Procedures Audit for the audit period ending June 30, 2005 for the South Carolina Department of Commerce.

**GAAP Packages:**

**Accounts Payable and Significant Miscellaneous Commitments Packages**

Management agrees with the Accounts Payable and Miscellaneous Commitments finding. The Department did begin correction of this process as soon as it was noted in the 2004 audit (March 2005) on the advice of our auditors. With their assistance a methodology was developed for reporting Accounts Payables and Miscellaneous Commitments and for netting the Accounts Payable from Miscellaneous Commitments. This methodology was used for the 2005 GAAP Packages on the advice of our auditors and in conjunction with the Comptroller General's Office. After your review and discussions of our concerns over this methodology, it was determined that a new methodology needed to be developed so a more accurate estimate of payables could be determined. This new methodology has been developed with your guidance and the Comptroller General's guidance. Management believes that the new methodology strengthens our ability to report accurate estimates for Accounts Payable and Commitments.

Due to the time of the year, these packages have been corrected and resubmitted to the Comptroller General's Office.

**Grants Receivable and Deferred Revenue Closing Package**

Management agrees with the Grants Receivable and Deferred Revenue finding. The Department did not properly review and cross reference to ensure that deferred revenue and grants receivables were being properly reported. Management will review all schedules and reports to ensure that procedures are being followed and that proper documentation is being kept and that all numbers are reported properly. The Department has implemented new procedures for ensuring that accounts payables are included in this package and that the Department correctly classifies revenues and receivables.

Due to the time of the year, this package has been corrected and resubmitted to the Comptroller General's Office.

**Other:**

**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. This finding applies to the Department and not to just the Finance Office. The Finance Office will work with Commerce staff to ensure that receipts are received in Finance and deposited by Finance within the seven day period.

**Reconciliations and Journal Entries**

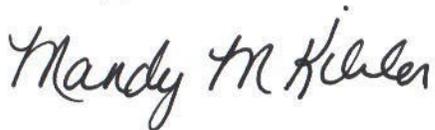
Management agrees that reconciliations should be completed in a timely manner. It is the policy of the Finance Office to complete these before the next Comptroller General reports are received (approximately 1 month). Each of the reconciliations is reviewed for accuracy and adjustments on a monthly basis. A formal policy on the reconciliation process will be developed for the timeliness and review of reconciliations which will include a schedule for completion on a monthly basis.

Management agrees that better explanations on some of our journal entries will explain the need for these correcting entries. This process has already been implemented and corrected for Fiscal Year 2006.

The Department of Commerce has made tremendous strides in correcting previous audit findings over the years and will continue to address the findings in this audit. We appreciate your willingness to help us correct issues and to assist staff with solutions that ensure that policies and procedures are being followed.

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". The signature is written in a cursive, flowing style.

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