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*South Carolina Department of Commerce*

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon  
Procedures for the year ended June 30, 2008

# *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 10, 2008

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, 2008, 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

## Contents

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|   | <u>Page</u>  |
|---|--------------|
| Independent Accountant's Report on Applying Agreed-Upon Procedures..... | 1-4          |
| Accountant's Comments   |              |
| Section A – Violation of State Laws, Rules or Regulations .....         | 5 - 6        |
| Section B – Status of Prior Findings.....                               | 7            |
| Management's Response .....   | Attachment A |

## 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, 2008, 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 \$6,200 – general fund, \$150,000 – earmarked fund, \$150,000 – restricted fund, and \$390,000 – federal fund and  $\pm 10$  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 \$130,000 – general fund, \$120,000 – earmarked fund, \$85,000 – restricted fund, and \$370,000 – federal fund and  $\pm 10$  percent.

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

## **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 \$130,000 – general fund, \$120,000 – earmarked fund, \$85,000 – restricted fund, and \$370,000 – 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. Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

#### **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, 2008, 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, 2008 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 findings 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, 2008, 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, 2007, 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  
September 30, 2008

## **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.

#### **Non-Payroll Disbursements and Expenditures**

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.

Section 72.2 of the fiscal year 2008 Appropriations Act states, “Subject to the terms and conditions of this act, the sums of money set forth in this part, if so much is necessary, are appropriated from the General Fund of the State, the Education Improvement Act fund, the Highways and Public Transportation Fund, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2007-2008...” (A similar proviso is in the fiscal year 2006-2007 Appropriations Act). Further, Section 11-35-45 (A) of the South Carolina Code of Laws states “All vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General's office within thirty work days from acceptance of the goods or services and proper invoice.”

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

#### **Payroll Disbursements and Expenditures**

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**

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 certain fiscal year 2008 closing packages that were incorrectly prepared and/or misstated. To accurately report the Office'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 errors noted on certain fiscal year 2008 closing packages submitted to the Office of the Comptroller General:

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.

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.

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, 2007, and dated September 27, 2007. The following describes the status of the prior year comment.

### **Prior Year Comment**

### **Status**

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

Corrective Action Taken

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.

## **ATTACHMENT A**



Mark Sanford  
Governor

**SOUTH CAROLINA**  
DEPARTMENT OF COMMERCE

Joe E. Taylor, Jr.  
Secretary

October 10, 2008

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, 2008 for the South Carolina Department of Commerce.

**Non-Payroll Disbursements and Expenditures**

It is not the practice of the Department of Commerce to process vouchers for payment of purchases of services, supplies, or information technology received after the Comptroller General's cut-off date of July 17, 2007. The department has implemented procedures to ensure that all incoming mail and vendor addresses are updated to come directly to the Accounts Payables office.

**Payroll Disbursements and Expenditures**

Management agrees with the findings that (1) one individual was overpaid by approximately \$300 due to miscalculations of the number of days worked during the final pay period. The Department has implemented additional reviews of the initial and final pay calculations for those employees being hired and terminated.

**GAAP Closing Packages**

Capital Assets:

The Department was aware that the 2008 beginning of year balances did not agree with the ending of the year balances reported on the 2007 Capital Assets Summary Form and was in the process in correcting submitted corrections to the Comptroller General's Office on September 30, 2008. The Department will take greater care in the preparation and review of closing packages to ensure all documents are properly submitted. We will attempt to complete packages well in advance of the due dates to provide greater time for review as recommended.

Accounts Payable, Significant Miscellaneous Commitments, and Grant/Contribution Receivables and Deferred Revenue:

Management agrees with the findings of these closing packages and now has the appropriate staff in place that will ensure greater care is taken in the preparation and

review of closing packages. We will attempt to complete packages well in advance of the due dates to provide greater time for review as recommended.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Chris Huffman', with a stylized, flowing script.

Chris Huffman  
Chief Financial Officer  
South Carolina Department of Commerce