

**SOUTH CAROLINA
DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 31, 2019

Mr. Robert M. Hitt, III, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Commerce (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures Related to the South Carolina Department of Commerce (P32)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following Earmarked Fund general ledger accounts: general operation contributions & donations - restricted and distributed bond proceeds.
2. Haphazardly select fifteen cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

Two selected receipt transactions were classified in an improper general ledger account. Specifically, a federal sub-award from another state agency totaling \$13,102 was recorded in general ledger account allocation from state agencies rather than general ledger account federal grant subcontract state agencies. In addition, a contribution totaling \$1,500 was recorded in general ledger account miscellaneous transfer – other fund rather than a general contributions general ledger account (unrestricted or restricted depending on the nature of the contribution).

Management's Response

The Department is adding an additional review process at the end of the fiscal year to address this finding.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations for the following general ledger accounts: General Fund: Allocation to Counties – Restricted, and Aid to State Agencies; Earmarked Fund: Non-IT & Non-Real Estate Other Professional Services, Highway & Road Improvements, and Assets Under Construction Settlement Clearing Account; Restricted Fund: Promotional, Catered Meals, and Allocation to Counties - Restricted; and Federal Fund: Non-IT & Non-Real Estate Other Professional Services.
4. Haphazardly select twenty non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- The transaction is properly classified in the general ledger.
- The disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
- The disbursement was recorded in the proper fiscal year.
- Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
5. Haphazardly select fifteen purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for Fiscal Year 2018 and inspect supporting documentation to determine:
- The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

Two selected purchasing card transactions, totaling \$4,827 and \$2,875, exceeded the single transaction limit, without prior written approval, of \$2,500 established by state procurement policies.

Management's Response

The Department will work with the MMO to address any single transaction limit items.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of the variation for the grant employees general ledger account in the Federal Fund.
7. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
8. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.

Payroll (Continued)

9. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
10. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Haphazardly select ten bonus pay disbursements to determine:
 - The employee did not make more than \$100,000 annually.
 - The bonus received during the year did not exceed \$3,000.
 - The payment agreed to supporting documentation.
 - The bonus pay was approved by the appropriate supervisor.
 - The transaction was properly classified in the general ledger.

Finding

The Department paid one employee for 353 hours of unused annual leave upon separation from the agency. However, state regulations specify an employee cannot be paid out for more than 45 days, or 337.5 hours, of annual leave. Therefore, the Department overpaid the employee by \$406.

Management's Response

The Department has added an additional review process for annual leave payouts of its employees.

Journal Entries and Transfers

12. Haphazardly select seven journal entries and three transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of this procedure.

Reporting Packages

13. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
14. In addition to the procedure above, perform the following:
 - Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg – Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

Reporting Packages (Continued)

- Grants and Contributions Revenue Reporting Package

Haphazardly select five grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, accounts payable, other accrual adjustments, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) the future minimum payments for three haphazardly selected operating leases; and (2) a total of ten haphazardly selected payments included in the remaining rental payment classifications (One Time Payments, Other Detailed Charges, and Additions).

- Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

Haphazardly select five commitments to determine if reported amounts and descriptions are reasonable/accurate based on inspection of invoices, contractual agreements, and/or other Department maintained documentation.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported and excluded from the original Accounts Payable Reporting Package submission. Further, compare the Annual Leave, Holiday Leave, and Compensatory Leave balances for each employee from the CG's Compensated Absences Report to the balances reflected in SCEIS as of June 30, 2018 to determine if the Department had any unreported late submissions of leave.

Findings

Cash and Investments Reporting Package

The Department reported improper amounts for the recorded, reconciled, and bank statement balances on the deposits with banks reporting form for each of its three composite reservoir accounts. On an aggregate basis, the recorded balance was overstated by \$933,879 and the reconciled and bank statement balances were understated by \$856,203 and \$38,838, respectively.

Operating Leases Reporting Package

The future minimum payments reported for two lease agreements were misstated on the operating leases future minimum payment schedule due to calculation errors and the use of an improper conversion rate. Specifically, the fiscal year 2019 payment for one lease was overstated by \$1,638 and the fiscal year 2019 – 2024 payments for another lease were understated by an aggregate total of \$10,099.

Reporting Packages (Continued)

Findings (Continued)

Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

A commitment reported was overstated by \$100,000 on the significant miscellaneous commitments form due to a duplication of entries.

Subsequent Events Questionnaire

The Department indicated there were no late leave submissions applicable to year-end. However, per comparison of the balances reported on the CG's compensated absences report as of June 30, 2018 to the balances reported in SCEIS as of the submission date of the reporting package, we identified \$14,573 in applicable late leave submissions that should have been reported.

Management's Response

Cash and Investments Reporting Package

The Department will prepare the package in accordance with its instructions.

Operating Lease Reporting Package

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

Miscellaneous Commitments Reporting Package

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

Subsequent Events Questionnaire

The Department appreciated the State Auditor's Office instruction on how to run the appropriate SCEIS report to assist with the response to the question of this package. The Department will utilize this report for future reporting.

Composite Reservoir Accounts

15. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
16. Obtain fiscal year monthly reconciliations for each composite reservoir account, excluding Palmetto Partners, and for two haphazardly selected reconciliations for each account, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the accounting records.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.

Composite Reservoir Accounts (Continued)

17. Haphazardly select and inspect five composite reservoir account receipts, excluding transactions from Palmetto Partners, to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
18. Haphazardly select and inspect ten composite reservoir account disbursements, excluding transactions from Palmetto Partners, 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of these procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

19. Select all four controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of this procedure.

Appropriation Act

20. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
21. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

Council Annual Reports

22. Obtain and inspect the 2018 Annual Reports for the South Carolina Council for Economic Development and the South Carolina Coordinating Council for Workforce Development to identify any matters applicable to our agreed-upon procedures.

We found no other matters related to our agreed-upon procedures.