



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

The Honorable Mayor and Members of City Council  
City of Isle of Palms  
1207 Palm Boulevard  
Isle of Palms, SC 29451

We have performed the procedures listed below, which were agreed to by management of City of Isle of Palms solely to assist you in evaluating the financial accuracy and internal controls of the marina tenants. This agreed-upon procedure engagement, as stated in our engagement letter dated December 3, 2018, was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is the sole responsibility of the parties specified 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:

Marina Joint Ventures (MJV):

**1.) Agree MJV general ledger sales and cost of goods sold (COGS) for the year ended January 31, 2018 to financials provided to City.**

Sales per MJV's general ledger were \$3,280 lower than the financials provided to the City. Cost of goods sold were \$241 lower than the financials provided to the City. The gross profit was higher on the financials provided to the City by \$3,039 when compared to the gross profit on the general ledger.

**2.) Select a haphazard sample of 20 sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

- 3.) Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

- 4.) Obtain a listing of all subtenants lease agreements with MJV. Compare MJV's listing of subtenants to schedule of subtenants provided by the City of Isle of Palms to determine if additional subtenants are in place that the City of Isle of Palms is unaware of.**

A listing of subtenants was provided by MJV which noted additional tenants from the schedule of subtenants provided by the City. The additional were noted to be subtenants renting dock space from MJV. Five of these subtenants were tested at #5 below.

- 5.) Select five subtenants haphazardly and verify that lease income is being reported in GL consistent with the lease agreement.**

For five subtenants haphazardly selected, we verified that the lease income reported in the general ledger was consistent with the lease agreement.

- 6.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.**

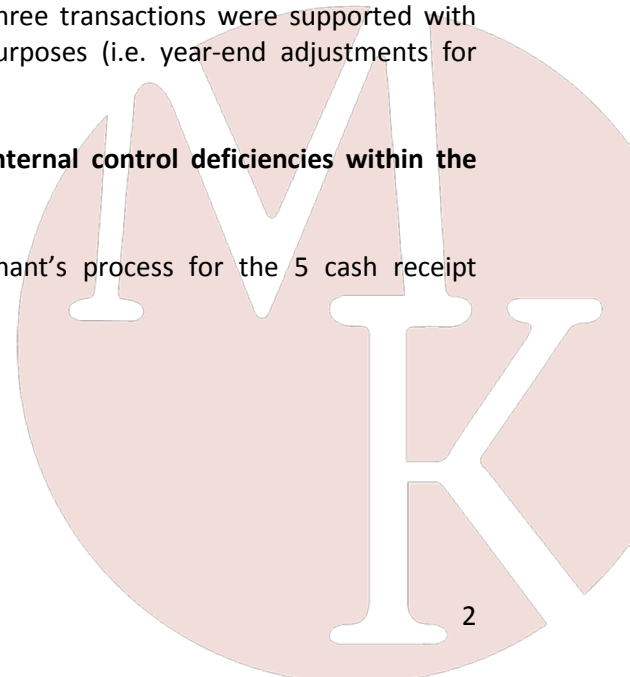
Sales of MJV were higher than cash receipts on the bank statement by \$2,727. MJV's management attributed the difference of \$2,727 to the financial statements being on accrual basis and the bank statements being on cash basis.

- 7.) Review the revenue and cost of goods general ledger accounts to see if any unusual journal entries are being booked that would reduce gross profit, and obtain support for any such journal entries over \$1,000.**

There were three transactions that were over \$1,000. All three transactions were supported with documentation and were noted to be for valid business purposes (i.e. year-end adjustments for inventory counts).

- 8.) Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.**

No internal control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.



Marina Outpost (MO):

**9.) Agree MO general ledger sales and COGS for the year ended January 31, 2018 to financials provided to City.**

Sales per MO's general ledger were \$53,346 higher than the financials provided to the City. Cost of goods were \$52,085 higher than the financials provided to the City. The gross profit was higher on MO's general ledger by \$1,261 when compared to the gross profit on the financials provided to the City.

**10.) Select a haphazard sample of 20 sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

**11.) Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

**12.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.**

Sales of MO were higher than cash receipts on the bank statement by \$11,853. MO's management attributed this difference to the financial statements being on accrual basis and the bank statements being on cash basis.

**13.) Compare 10 daily reports from AGK software to upload to QuickBooks.**

No errors were noted on the haphazard sample of 10 transactions tested, and all supporting documentation was provided.

**14.) Review the revenue and cost of goods general ledger accounts to see if any unusual journal entries are being booked that would reduce gross profit, and obtain support for any such journal entries over \$1,000.**

There was one transaction that was over \$1,000 and reduced gross profit. The transaction was supported with documentation and was noted to be for a valid business purpose (i.e. year-end adjustments for inventory counts).

**15.) Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.**

No internal control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

Morgan Creek Grill (MGC):

**16.) Agree MGC general ledger sales for the year ended October 31, 2017 to financials provided to City.**

Sales per the general ledger agreed to the sales on the financials provided to the City.

**17.) Review "comps" deducted from gross receipts and report comps that are greater than 1% of sales for the year ended.**

We obtained the schedule of "comps" deducted from gross receipts, and noted there were no "comps" greater than 1% of sales.

**18.) Select 20 days at random and agree closeout register support to general ledger and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

There were 3 errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided. The three errors were credit card transactions that did not agree to the bank statement and had differences of \$257, \$14, and \$25. An additional sample of 10 transactions was selected and tested. Of the additional 10 transactions tested, no errors were noted, and all supporting documentation was provided.

**19.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.**

Sales of MGC were higher than cash receipts on the bank statement totaled by \$59,390. MGC's management attributed the difference of \$59,390 to the financial statements being on accrual basis and the bank statements being on cash basis.

**20.) Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.**

Control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

- a.) It was noted that the Operations Manager prepares the bank reconciliation and also takes deposits to the bank. This is an internal control deficiency in segregation of duties, and we recommended to MGC that a separate individual deposit cash receipts and prepare the bank reconciliation.
- b.) No review of the bank reconciliation is occurring, and we recommended to MGC that one of the owners review the bank reconciliation on a monthly basis.

Tidal Wave Sports (TWS):

**21.) Agree general ledger sales and COGS to financials provided to City.**

Sales per the general ledger were \$19,862 lower than the financials provided to the City. Cost of goods sold were \$558 lower than the financials provided to the City.

**22.) Select a haphazard sample of 20 IOP sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors in the amounts were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided. However, for one sale tested it was noted that the sales were for the Mount Pleasant location and not Isle of Palms.

**23.) Select 15 Mount Pleasant sales transactions, and obtain closeout sheet to determine that amount related to Mount Pleasant revenues and not Isle of Palms.**

Mount Pleasant sales were not provided by Tidal Wave as they maintained this was private information not privy to the City.

**24.) Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

One error in the amount of \$100 was noted on the haphazard sample of 20 transactions tested, and one transaction had no support available. An additional sample of 10 expenses was sampled. Support was provided for 8 of the items that agreed to the amount on the general ledger with no errors. However, support was not available for 2 of the 10 additional items selected to test. Additionally, it was noted that all items were 100% allocated to the Isle of Palms location, and based on the support provided 25 of the 30 should have had a portion of the expense allocated to the Mount Pleasant location.

**25.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.**

Bank statements of TWS include activity of the Mount Pleasant location and warehouse rental. Therefore, total sales of all three organizations were compared to the total cash receipts on the bank statements for the year. Sales of TWS were lower than cash receipts on the bank statement by \$29,983. TWS's management attributed the difference to cash received for rent, loan payments, refunds, and other miscellaneous receipts that were not sales related.

**26.) Test allocation of payroll between City of Isle of Palms and Mt. Pleasant location by selecting 10 payrolls during year, and selecting the 3 highest paid employees to determine that payroll is allocated to locations properly.**

The 3 highest employees consisted of ownership and management. The owners' payroll was allocated in total based on their total wages, time incurred at each location, and time incurred on administrative work or direct labor. We obtained the payroll reports, the calculation of the owner's compensation allocated to direct labor for Isle of Palms, and recalculated the schedule, and agreed it to the general ledger. Additionally, the methodology and allocation percentages appeared reasonable based on information provided by TWS.

There was no support available for the allocation of the employees' biweekly payroll between the Isle of Palms location and Mount Pleasant. The management employee selected for testing worked exclusively at the Isle of Palms location based on discussions with TWS. However, there was no support provided which could link the 10 pays selected to test to the general ledger for this management employee.

**27.) Obtain methodology for which costs are included in the cost of goods sold of TWS, and determine whether this is in line with generally accepted accounting principles.**

The methodology for expenses included in cost of goods sold is in line with generally accepted accounting principles. Cost of goods sold consists primarily of direct labor, repairs and maintenance, and fuel.

**28.) Select 20 fuel invoices haphazardly and obtain receipts to ensure location is accurate. Inquire of owners to determine whether fuel purchased at Isle of Palms is used for Mount Pleasant location and allocated to location on financial statements.**

No receipts were available for the 20 fuel invoices haphazardly selected for testing. TWS provided their credit card statements to verify the amounts and locations on the general ledger, and all amounts agreed with no error. It was noted that 3 of the fuel expenses tested had been obtained from a Mount Pleasant location. Additionally, there was no way to determine if fuel purchased at the Isle of Palms marina had been used for boats used at Isle of Palms or at Mount Pleasant.

**29.) Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.**

Control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

- a.) TWS has sales at Isle of Palms as well as Mount Pleasant. All activity is maintained in one Quickbooks account and divided by class/location. Sales of Isle of Palms could be recorded in the Mount Pleasant location to reduce gross profit.
- b.) TWS has sales from two locations as well as from a warehouse, and all income received flows through one bank account. We would recommend that three separate bank statements be set up for the different revenue streams.
- c.) The bank reconciliation is prepared by the owner, and no other review of the bank reconciliation is performed. We would recommend that a bookkeeper or Certified Public Accountant prepare the bank reconciliation each month and the owner review it.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial accuracy and internal controls of the marina tenants. 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 management of City of Isle of Palms and City Council and is not intended to be and should not be used by anyone other than this specified party.

Very truly yours,

*McKay Kiddy LLC*

June 3, 2019

