

**SOUTH CAROLINA  
STATE ELECTION COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 7, 2007

The Honorable Mark Sanford, Governor  
and  
Members of the Commission  
South Carolina State Election Commission  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Election Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2006, in the areas addressed. The Commission'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 agency'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 agency's accounting records. The scope was based on agreed upon materiality levels (\$70 – general fund, \$32,700 – earmarked fund, \$6,000 – restricted fund, and \$4,700 – federal fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenue Transaction Types and Posting of Transactions in the Accountant's Comments section of this report.

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 agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$18,200 – general fund, \$15,200 – earmarked fund, \$10,300 – restricted fund, and \$4,700 – federal fund) and  $\pm 10$  percent.

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

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 agency'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 agency'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 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$18,200 – general fund, \$15,200 – earmarked fund, \$10,300 – restricted fund, and \$4,700 – 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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Documentation of Election of Non-Membership in the State Retirement System and Termination Dates in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and all interagency 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 agency's policies and procedures and State regulations.

The individual transactions selected for our test of journal entries were chosen randomly. Our findings as a result of these procedures are presented in Journal Entries, Revenue Transaction Types and Posting of Transactions in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission 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 agency'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 Commission for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Commission'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 Commission'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 Commission's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Commission's compliance with Appropriation Act general and agency 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, 2006, prepared by the Commission 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 Closing Packages in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2004, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2005.

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

The Honorable Mark Sanford, Governor  
and  
Members of the Commission  
South Carolina State Election Commission  
June 7, 2007

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 and of the governing body and management of the South Carolina State Election Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**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 agency 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.

## **CLOSING PACKAGES**

### **Compensated Absences**

During our fiscal year 2006 review of the compensated absences closing package, we noted accrued annual leave liability for one employee out of five tested was erroneously reported on the closing package due to agency error. This employee was not hired by the Commission until July 10, 2006, and therefore, was not an employee as of June 30, 2006. Only accrued annual leave liability as of June 30, 2006 was to be reported. As a result of this error, annual leave liability was overstated by \$261.

The Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) Section 3.17 includes instructions regarding the proper preparation of the closing package. Further, good internal controls require that the Commission have a qualified preparer and reviewer independent of the preparer review closing packages prior to submission to the Comptroller General's Office to ensure accuracy of the information submitted.

### **Capital Assets**

During our review of the Capital Assets Closing Package, we noted the following errors:

1. The Commission included three items on its capital assets worksheet that had been previously disposed of in subsequent fiscal years.
2. The Commission erroneously reported current year depreciation of \$7,538 for machinery and equipment. No depreciation was reported on the capital assets worksheet for these asset types; therefore depreciation expense was overstated by \$7,538.
3. The Commission reported current year retirements of machinery and equipment of \$6,461; however, actual retirements per the capital assets worksheet was \$7,538. Therefore, retirements were understated by \$1,077.

According to Commission personnel, these errors were due to oversight during the review process.

Sections 3.8 through 3.11 of the GAAP Manual provide guidance for agencies reporting capital assets transactions and balances in closing packages. In addition, they include instructions that require the retention of working papers supporting all information reported closing package.

### **Recommendations**

We recommend that the Commission implement procedures to ensure that all closing packages contain accurate and complete information in accordance with GAAP Manual instructions. Further, the Commission should ensure that persons preparing and reviewing closing packages are knowledgeable of the GAAP Manual instructions.

### **RECONCILIATIONS**

During our review of the Commission's reconciliations we noted the following deficiencies:

1. Reconciliations for several months were not consistently signed by both the preparer and reviewer.
2. Cash reconciliations for April 2006 and revenue reconciliations for May 2006 were not prepared.
3. Cash and revenue reconciliations for January 2006 were not prepared until May 2006. Further, these reconciliations did not provide explanations of reconciling items.
4. The Commission did not reconcile its federal grant accounts to the Comptroller General's 467 report.

According to the Commission, because of changes in the Administration Department during the fiscal year, reconciliations were not consistently prepared.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires that all agencies perform regular monthly reconciliations between their accounting records and STARS to ensure timely detection and correction of errors. Separate reconciliations should be performed of cash, revenue and expenditure accounts and must be performed at the level of detail in the Appropriation Act. Reconciliations must be performed at least monthly on a timely basis (i.e., shortly after month-end), be documented in writing in an easily understandable format with all supporting workpapers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. In addition, Section 3.2.3.2. of the STARS Manual requires that all agencies receiving federal funds perform monthly reconciliations between the CSA 467M report and the agency records for each project and phase code.

We recommend the Commission develop and implement procedures to ensure that reconciliations are performed in accordance with applicable State regulations.

#### **DOCUMENTATION OF ELECTION OF NON-MEMBERSHIP IN THE STATE RETIREMENT SYSTEM**

During our standard test of twenty-five payroll transactions, we noted two temporary, hourly employees did not have retirement contributions deducted from their pay. According to the State Retirement System's Covered Employer Procedures Manual, non-permanent employees (temporary) are allowed to elect non-membership; however, the employee must submit a completed *Election of Non-Membership* (Form 1104) to the Retirement Systems within 30 days of the employee's date of hire. We could not locate this form in the employees' payroll files. Commission personnel stated they were unaware temporary employees could be given the option of participating in the state's retirement system.

We further noted that a part-time permanent employee did not participate in the State's retirement system. Form 1104 instructions state that if a position is permanent, the employee is required to participate in the retirement system. Commission personnel stated they assumed since the position was not full-time, the employee could choose whether or not to participate.

We recommend the Commission develop and implement procedures to ensure its compliance with State Retirement Systems Regulations. Also, we recommend that the Commission audit its current employee files to ensure that all required forms are maintained in the files and that retirement system enrollment status is accurate for all employees.

## **SECTION B - OTHER WEAKNESSES**

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **JOURNAL ENTRIES**

During our test of journal entries, we noted two of 25 journal entries that were prepared and posted to the Commission's accounting records did not contain evidence of proper approval. According to Commission personnel, the employee who processed the journal entries was given verbal approval to post the entries and subsequently filed them before the approval was documented in writing. A similar finding was noted in the fiscal year 2004 report. We applied no procedures to the Commission's accounting records for the year ended June 30, 2005.

Effective internal controls require adequate review for all transactions including adjustments. The review should be performed by persons knowledgeable of generally accepted accounting principles.

We again recommend the Commission take appropriate action to ensure journal entries are reviewed and approved in writing prior to posting.

## **TERMINATION DATES**

We noted the termination date for two employees listed on the termination list provided by the Commission did not agree to supporting documentation in the employees' payroll files.

According to Commission personnel, personnel preparing the various forms mistakenly documented the termination date as the date after the employee's final day of work.

Effective internal controls require procedures to ensure that the Commission prepares and maintains accurate documentation in its employee files to support all personnel and payroll transactions.

We recommend the Commission develop and implement procedures to ensure the accuracy of information maintained on its employees.

## **REVENUE TRANSACTION TYPES**

During our testing of cash receipts, revenue cut off and journal entries we noted Commission personnel inconsistently used Revenue Vouchers (RV), Revenue Interdepartmental Transfers (RI) and Revenue Adjustments (RJ) documents to record revenue. Commission personnel stated this was due to human error.

An effective system of internal controls should ensure that accounting transactions are properly classified and recorded in the agency's records and that employees who process and post these transactions have a thorough understanding of the accounting system.

We recommend that the Commission develop and implement policies and procedures to ensure that all transactions are properly and consistently recorded.

## **POSTING OF TRANSACTIONS**

We tested 25 transactions in the test of cash receipts and 17 transactions in the revenue cut-off test. We noted that 6 of the 25 transactions from the test of cash receipts and 4 of the 17 transactions from the revenue cut-off test were not posted to the accounting records in a timely manner. We also noted one out of 25 transactions tested during our test of journal entries was not posted in a timely manner.

To be effective, a system of internal controls requires maintenance of a general ledger and accounting system which includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision making. Because cash is an asset most vulnerable to loss internal control procedures should require the agency to initiate accounting control over cash receipts immediately upon collection and timely post the transactions to the accounting records.

We recommend the Commission develop and implement controls to ensure that transactions are timely posted to the accounting records.



## **SECTION C - 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 State Auditor's Report on the Commission for the fiscal year ended June 30, 2004, and dated May 3, 2005. We applied no procedures to the Commission's accounting records for the year ended June 30, 2005. We determined that the Commission has not taken adequate corrective action on the finding. The continuing deficiency is described in Journal Entries in Section B of the Accountant's Comments in this report.

## **MANAGEMENT'S RESPONSE**

*State of South Carolina*

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Chairperson

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CHRIS WHITMIRE  
Public Information Officer

July 11, 2007

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

We have completed our review of the preliminary draft copy of the report resulting from the audit of agreed-upon procedures of the State Election Commission for fiscal year ending June 30, 2006. In response to the minor deficiencies the audit revealed, we have taken steps to correct the deficiencies.

The State Election Commission works diligently to ensure that all State laws, rules and regulations are followed. We appreciate your efforts to assist us. We authorize the release of the report. Enclosed is a current list of State Election Commission members and their mailing addresses.

Sincerely,

A handwritten signature in dark ink, appearing to read "Marci Andino", is written over a faint, larger version of the same signature.

Marci Andino

4 copies of this document were published at an estimated printing cost of \$1.60 each, and a total printing cost of \$6.42. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.