

**SOUTH CAROLINA
OFFICE OF THE SECRETARY OF STATE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 23, 2007

The Honorable Mark Hammond, Secretary of State
South Carolina Office of the Secretary of State
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Office of the Secretary of State (the Agency), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2006, in the areas addressed. The Agency'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 and to determine that revenue collection and retention or remittance were supported by law.
- We inspected selected recorded receipts from fiscal month 12, fiscal year 2006 and fiscal month 01, fiscal year 2007 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 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 and earmarked funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$38,292 – general fund and \$13,058 – earmarked fund) and ± 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 finding as a result of these procedures is presented in Agency Deposits 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 Agency, and were paid in conformity with State laws and regulations and to determine 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 and earmarked funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$12,374 – general fund and \$13,164 – earmarked fund) and ± 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 all 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 and earmarked funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$12,374 – general fund and \$13,164 – earmarked fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

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

The journal entries 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 Agency 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. Our finding as a result of these procedures is presented in Transaction Sequence in the Accountant's Comments section of this report.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. 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 Agency'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 Agency 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.

We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

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

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

The Honorable Mark Hammond, Secretary of State
South Carolina Office of the Secretary of State
February 23, 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 Secretary of State and the management of the Office of the Secretary of State 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.

AGENCY DEPOSITS

During our test of cash receipts, we found one receipt that was not deposited in a timely manner. This receipt was held for 11 business days before being deposited. We were told that the deposit was not made timely because of additional work assigned to the accountant at the time.

Proviso 72.1 of the fiscal year 2006 Appropriation Act states, "For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State."

We recommend the Agency deposit funds as often as practical but not less often than once each week. We further recommend that the Agency train additional staff to assist the accountant when workload or absence prevents a timely deposit of funds.

PAYROLL CALCULATIONS

During our test of employees who terminated employment, we found one employee's final leave pay was miscalculated which resulted in an underpayment. The error occurred because the Agency calculated the employee's final pay using a salary amount from earlier in the year that did not include recent adjustments.

State Human Resources Regulation 19-709.05 states, "Upon separation from State employment a lump sum will be made for unused annual leave, not to exceed 45 days." Also, the Office of Human Resources website notes, "The annual leave payout should be calculated based on the employee's final rate of pay, including longevity, temporary salary adjustments, or any other pay that the employee is receiving at the time of separation."

We recommend that the Agency establish standards of organization of personnel files to avoid similar mistakes. We also recommend a review of payroll calculations be performed by an independent reviewer.

RECONCILIATIONS

During our review of monthly reconciliations between the Agency's accounting records and the State's accounting records (STARS), we noted that the expenditure reconciliations for fiscal month 12 and fiscal month 13 of fiscal year 2006 were not signed and dated by an independent reviewer. We also noted that the revenue reconciliations for September and October 2005 were not completed in a timely manner because the preparer was on extended leave.

STARS Manual, Section 2.1.7.20 requires that reconciliations must be performed at least monthly on a timely basis. In addition, reconciliations must be reviewed and approved in writing by an appropriate agency official other than the preparer.

We recommend that the Agency adhere to the STARS Manual by implementing adequate measures to ensure proper review of monthly and year-end reconciliations. We also recommend that the Agency train additional staff to assist the preparer responsible for the reconciliations when the preparer is unable to perform the reconciliations in a timely manner.

SECTION B - OTHER WEAKNESS

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 condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

TRANSACTION SEQUENCE

We reviewed the numerical sequence of various Agency transaction documents and noted that the Agency does not include the South Carolina Business One Stop (SCBOS) receipts received from the Department of Revenue in its numerical sequence.

Effective internal controls require that the Agency maintain appropriate numerical sequence of transactions to ensure that all transactions are accounted for and are properly recorded.

We recommend that the Agency implement procedures to ensure that SCBOS receipts are properly included in the numerical sequence for receipts.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency for the fiscal year ended June 30, 2004, and dated August 15, 2005. (We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2005.) We determined that the Agency has taken adequate corrective action on the finding Returned Checks but we have repeated the finding Agency Deposits.

MANAGEMENT'S RESPONSE

Section A

Agency Deposits

It is the policy of the Secretary of State's office to make all deposits in compliance with state law. The report notes vast improvements in the timeliness of deposits since the last review. The one exception was due to the accountant's absence and her work on another project. During the review period we did not have additional personnel trained to process deposits. The accountant strives to make all deposits on a daily basis whenever possible and timeliness is monitored regularly by her supervisor. We have a decisive plan to train additional staff to serve in the absence of the accountant to ensure that all deposits are made in compliance with state law.

Payroll Calculations

We thank the auditors for discovering the error and we corrected the error in the leave pay calculation immediately. In the current fiscal year we implemented a new filing system to organize personnel files in a way where forms are filed in date order to avoid mistakes of this nature. In addition, we will institute a procedure by which any payouts other than routine salary are reviewed by an independent reviewer.

Reconciliations

It is the policy of the Secretary of State's office to perform all reconciliations as prescribed in the STARS manual. In the reviewed fiscal year the agency experienced tremendous turnover and change in management which led to the oversight of the end of year reconciliation reviews. However, management realizes the importance of having additional staff trained to carry out these functions if necessary and is taking steps to ensure that staff are trained accordingly and all monthly and year end reconciliations are performed as required.

Section B

Transaction Sequence

While we appreciate the recommendation made regarding the numbering of SCBOS deposits, at this time including those deposits in the main numerical sequence would delay the numbering and depositing of other receipts. SCBOS receipts are tracked with a separate numerical sequence as the agency does not receive deposit vouchers from the Department of Revenue on a daily basis. The unique nature of the SCBOS system and the collaboration between state agencies in processing transactions currently make it impractical to include SCBOS receipts in the main numerical sequence. However, SCBOS deposits are checked against the records of the Comptroller General's office to ensure that all receipts are accounted for and properly recorded. As the SCBOS system

Secretary of State's Response to Accountant's Comments

continues to develop we will look for opportunities to integrate the accounting processes with those utilized by the Secretary of State's Office.

Section C

Status of Prior Findings

We appreciate the recognition of our efforts to correct the finding on the Returned Checks and will continue to improve on the timeliness of agency deposits.

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