

**SOUTH CAROLINA
STATE ETHICS COMMISSION
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

June 7, 2007

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina State Ethics 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 Ethics 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 of earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level of \$10,100 and ± 10 percent.

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

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 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 (\$7,200 – general fund and \$5,400 – earmarked fund) and ± 10 percent.

Our finding as a result of these procedures is presented in Expenditure By Fiscal Year 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 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 and earmarked funds to ensure that payroll expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$7,200 – general fund and \$5,400 – earmarked fund) and ± 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 ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected all recorded journal entries 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, and the transactions were properly approved were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

Our finding as a result of these procedures is presented in Accounting System 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.

Our findings as a result of these procedures are presented in Accounting System in the Accountant's Comments section of this report.

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.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in the Object Codes and 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 finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.

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 Commission from our engagement for the fiscal year ended June 30, 2005, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Accounting System and Reconciliations 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 and of the governing body and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.



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.

OBJECT CODES

While applying analytical procedures, we noted the Commission had used object codes not applicable to their agency to record receipts. The Commission was trying to record a refund of an expenditure but when they used the incorrect transaction code it caused the transaction to be recorded as a tax revenue. The Commission does not collect any tax revenues.

The Statewide Accounting and Reporting System (STARS) Manual, Section 2.1.6.0 defines object codes. Also, Section 2.1.3.50 provides instructions for completing deposit slips and which transaction codes to use.

We recommend the Commission follow guidelines set forth in the STARS Manual. The Commission should also correct errors in STARS as well as their books.

EXPENDITURE BY FISCAL YEAR

While testing to ensure expenditures were paid in the proper fiscal year, we noted that two vouchers were paid in the wrong fiscal year. These expenditures were paid with fiscal year 2007 funds due to agency error.

Proviso 73.1 of the 2006 Appropriation Act states, "State agencies are required to submit all current fiscal year input documents to the Comptroller General by July 18, 2006.

We recommend the Commission pay current year expenditures with current year funds.

RECONCILIATIONS

The Commission does not maintain cash account information in its accounting records or reconcile cash balances. The Commission's accounting system does not include detail information (See Accounting System comment).

Also during our review of year-end reconciliations, we noted several reconciliation issues. The Commission only reconciles expenditures to the minor object code level and not to the subfund and minor object code level. The Commission's accounting records do not agree to the Comptroller General's records because the Commission does not record journal entries that correct subfund errors in their accounting records. The Commission's reconciliations are incomplete and are not in compliance with the STARS Manual.

Section 2.1.7.20 of the Comptroller General's STARS Manual states that "Monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the level of detail in the Appropriation Act . . . The only way . . . errors can be detected is for the agency accounting personnel to perform regular monthly reconciliations between their . . . accounting records and STARS balances shown on the STARS reports. Such reconciliations provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS."

Similar comments were noted in reports for the fiscal year ending June 30, 2005, June 30, 2002, June 30, 2001, June 30, 2000, June 30, 1999, and June 30, 1998. We applied no procedures to the Commission's accounting records and internal controls June 30, 2004 and 2003.

We recommend the Commission establish cash accounts and implement procedures to help ensure that timely reconciliations of revenues, expenditures, and ending cash balances at the subfund/object code level are prepared and reviewed. Errors detected in this process should be timely corrected in the agency's accounting system and/or in STARS. The Commission should perform reconciliations in accordance with the requirements in the STARS Manual.

COMPENSATED ABSENCES CLOSING PACKAGE

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states in part, the following: "...The Form will show the value of accumulated unused leave earned by employees and the number of *employees earning annual leave as of June 30*. However, exclude amounts for employees terminating their State employment during June. (The Comptroller General's Office will calculate this liability separately.)"

During our test of the Compensated Absences Closing Package we noted an employee who terminated employment effective June 30, 2006, was included on the Compensated Absences Closing Package. The liability reported on the Compensated Absences Closing Package was overstated by \$15,018.45.

We recommend the Commission follow the guidelines set forth in the Comptroller General's GAAP Closing Procedures Manual to ensure proper reporting.

SECTION B – WEAKNESS NOT CONSIDERED MATERIAL

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

ACCOUNTING SYSTEM

The Commission does not maintain a double-entry accounting system. Instead it maintains two subsidiary ledgers to account for cash receipts and cash disbursements. The Commission does not maintain accounting records to control other financial activity (e.g., budget, cash, capital assets, accounts receivable, accounts payable, payroll and related fringe benefits, etc.). The Commission relies heavily on the accounting information submitted by agency personnel and posted to the State's budgetary system, STARS, to monitor its financial position.

Auditing standards define management's responsibilities as follows, "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." The auditing standards further describe internal control as "a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations."

Reports generated from STARS are generally received monthly. Therefore management does not generally have available current financial information to assist it in making financial decisions. In addition, because it does not maintain a general ledger, it is unable to determine if the financial transactions were processed properly on STARS.

We have been told by management that the Commission will be procuring the South Carolina Enterprise Information System (SCEIS) as soon as it is made available to them. However, we recommend that the Commission develop and implement an accounting system to control all financial transactions until such time as they implement the SCEIS.

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 Commission for the fiscal year ended June 30, 2005, and dated April 24, 2006. We determined that the Commission had not taken adequate corrective action on the findings titled Accounting System and Reconciliations. We have repeated the findings in Sections A and B of this report.

MANAGEMENT'S RESPONSE

State of South Carolina State Ethics Commission

COMMISSIONERS
SUSAN P. McWILLIAMS, MEMBER AT LARGE
CHAIR
MARVIN D. INFINGER, 1ST DISTRICT
VICE CHAIR
EDWARD E. DURYEY, 2ND DISTRICT



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PRISCILLA L. TANNER, 6TH DISTRICT
PHILLIP FLORENCE, JR., MEMBER AT LARGE
G. CARLTON MANLEY, MEMBER AT LARGE

5000 THURMOND MALL, SUITE 250
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HERBERT R. HAYDEN, JR.
EXECUTIVE DIRECTOR

August 21, 2007

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

In response to your letter, I have reviewed the preliminary draft copy of your report for the fiscal year ended June 30, 2006. As requested, the following comments are provided:

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

OBJECT CODES: An incorrect object code was used to record a staff reimbursement of less than \$10.00. The refund was deposited with the last deposit of the fiscal year, was detected in the twelfth month report, however was too late to correct before the final report of the fiscal year. The reimbursement was collected, and deposited timely, however, a staff member wrote down the wrong trans code. It was a paperwork error only.

EXPENDITURE BY FISCAL YEAR: A bill for an item purchased in June 2006 was received in fiscal year 2007 and paid with carry forward funds. Other than being charged to the wrong fiscal year's budget, it had no impact on the Commission's finances.

RECONCILIATIONS: As previously stated in prior audits, the Commission's accounting system does not allow reconciliation to the subfund and minor object code level. While the Commission's records may not agree to the Comptroller General's records on a monthly basis, they are in complete agreement with the records at fiscal year's end. Even though the Commission has repeatedly been assured that the South Carolina Enterprise Information System (SCEIS) would correct these deficiencies and has set aside funds to implement SCEIS, this system is still not available for the Commission's use.

COMPENSATED ABSENCES CLOSING PACKAGE: On June 30, 2006, the agency head retired with the understanding that he would be rehired on July 17, 2006. With that understanding, the former Human Resources Manager incorrectly assumed that the agency head's unused leave would be included in the closing package.

I fail to see how any of the above could even be considered material weaknesses, much less violations of state law. Characterizing these minor errors as violations of state law implies some intent which you absolutely have no evidence of.

SECTION B – WEAKNESS NOT CONSIDERED MATERIAL

ACCOUNTING SYSTEM: The Commission's accounting system has been a point of aggravation for the State Auditor's Office for many years. As previously stated, the system does not have the capability to maintain all the records which the Auditor's Office would like to see, it is considered cumbersome to use, is unlike any other system which they audit, and apparently does not meet current auditing standards. However, the system has worked for the Commission for many years, and prior to 1999 was adequate in the eyes of the State Auditor. Further, it provides all information required by the Comptroller General, and provides more than enough financial information for the agency head to make necessary financial decisions.

SECTION C – STATUS OF PRIOR FINDINGS

Corrective action on the prior findings, Accounting System and Reconciliations, has not been taken because to do so would involve developing an entirely new accounting system. As indicated in previous years, the Commission will procure SCEIS as soon as it is available. Each time we inquire as to when it will be available; we are told that we have been moved further down the list to receive it.

In my opinion, it would not be financially prudent to spend thousands of dollars, especially during repeated years of budget cuts, to create a temporary system when the current system provides all the information I need to make the Commission's financial decisions. However, within the last few months, it has come to our attention that there is a low cost alternative available. With the assistance of the State CIO, the Commission has developed and implemented for the 2008 fiscal year, a new system known as Quickbooks. Working in conjunction with the State Auditor's Office, the CIO's representative has assured the Commission that this system will provide all of the information required to correct the previous concerns.

Mr. Richard H. Gilbert, Jr.
August 21, 2007
Page 3 of 3

You may consider this letter authorization to release your report. As requested, attached is a list of the current Commissioners and mailing addresses along with a copy of this response on diskette.

Sincerely,

A handwritten signature in black ink, appearing to read 'Herb Hayden, Jr.', with a long horizontal flourish extending to the right.

Herbert R. Hayden, Jr.
Executive Director

HRHjr:arf

Enclosures: Commissioner List
Diskette

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