

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2004

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
AGENCY DEPOSITS	6
RETURNED CHECKS	7
SECTION B - STATUS OF PRIOR FINDINGS	8
MANAGEMENT'S RESPONSE	9

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 15, 2005

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 management of the South Carolina Office of the Secretary of State (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2004, in the areas addressed. The Office'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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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, were bona fide disbursements of the Office, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 internal controls over these transactions were adequate.
- 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 recorded payroll expenditures to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

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

- We inspected selected recorded journal entries and all operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual journal entry transactions 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 Office 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

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 Office for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Office's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 Office'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 Office's accounting records and/or in STARS.

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

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Office's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

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, 2004, prepared by the Office of Secretary of State 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; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

9. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2003.

Our finding as a result of these procedures is presented in Returned Checks 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 areas, 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.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

AGENCY DEPOSITS

During our test of cash receipts, we tested a total of 50 receipt transactions. We found 36 receipts were not deposited in a timely manner. Cash receipts were on hand from 8 to 71 days before being deposited.

Proviso 72.1 of the fiscal year 2004 Appropriation Act states “For the current fiscal year, except as hereinafter specially provided, all general state revenues. . . 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.

Receipts are received by various departments in the agency. These departments are to forward receipts to the accounting department on a daily basis according to agency procedures. However, some departments are not forwarding their receipts on a timely basis. As result, when the receipts are received for deposit, the receipts have already been held for longer than seven days.

We recommend the Office deposit funds as often as practical. We recommend the Office prohibit the practice of keeping of receipts in the various departments within the Office and require these receipts to be submitted to accounting on a daily basis.

RETURNED CHECKS

The Office maintains a returned check account. The account is used to maintain accountability over returned checks. During fiscal year 2004, the activity in this account increased significantly and at the June 30, 2004, the account had a credit balance of approximately \$41,000.

The Office's internal policy states, "When the office is notified (by the bank) that the check was unable to be processed, the office immediately begins collection procedures."

Office personnel told us that collection letters were not sent out in fiscal year 2004 due to a heavy work load.

We recommend that the Office ensure the timely collection of returned checks by adhering to its internal policy.

SECTION B - 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 Office for the fiscal year ended June 30, 2002, and dated April 22, 2003 (We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2003). We determined that the Office has taken adequate corrective action on each of the findings except we have repeated the finding entitled Returned Checks.

MANAGEMENT'S RESPONSE

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

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October 6, 2005

Thomas L. Wagner, Jr.
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Re: Secretary of State Audit for FY 2004

Dear Mr. Wagner:

This letter officially authorizes the State Auditor to release its findings of the FY 2004 Secretary of State audit. We have completed our review and below are our responses to material weaknesses found:

Agency Deposits

Secretary of State management became aware of this problem in FY 2004 and immediately took measures to prevent this from occurring again. All staff was specifically instructed to timely submit receipts and staff in charge of deposits were instructed to make daily deposits. Secretary of State management routinely checks to see that these measures are in place.

Returned Checks

The Secretary of State's Office experienced extremely high volumes of filings during a four-week period in 2004 – more than 25,000 Limited Liability Reports were filed within a four week period. This resulted in an extreme backlog of filings, thus preventing checks from being processed timely.

Secretary of State management has taken steps to prevent this from occurring again. A new imaging system was installed to process work faster and LLC annual reports were eliminated by the General Assembly. Further, staff has in place a system to issue NSF checks timely. Management routinely monitors this process to insure that collection letters are sent out timely.

Thank you for the professionalism of your staff during this audit. Overall we were pleased with the findings and assure your office that the Secretary of State's Office took corrective measures for the above weaknesses at the time they occurred.

Please let me know if you need anything further.

With kind regards,

Mark Hammond
Secretary of State