

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

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2007**

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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

July 3, 2008

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, 2007, 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 in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts from fiscal months 12 and 13, fiscal year 2007, and fiscal month 01, fiscal year 2008 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 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 (\$39,200 – general fund and \$16,300 – earmarked 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. 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 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.
- 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 (\$12,600 – general fund and \$12,800 – earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Code and Transaction Sequence 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 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 (\$12,600 – general fund and \$12,800 – earmarked 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 Pay Calculation and Employer Contributions in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and all 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 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 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 Office for the year ended June 30, 2007, 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 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 agency's accounting records and/or in STARS.

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

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Office'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, 2007, prepared by the Office 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 Office resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Office had taken corrective action.

Our finding as a result of these procedures is presented in Pay Calculation 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 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.



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 CODE**

During our test of disbursements, we noted that four of the 25 disbursements tested were charged to incorrect object codes. These disbursements were for refunds of customer payments received in the prior fiscal year. The Office debited the original revenue object codes (4812 – Foreign Corporation Fee and 1625 - Charitable Organization Solicitation Permit) under which the prior year receipts were recorded. However, the Office should have recorded the refunds under object code 3804 (Refund – Prior Year Revenue). As a result of using current year revenue object codes to record a refund of a prior year revenue, the Office understated fiscal year 2007 revenues.

The Comptroller General's Policies and Procedures Manual (STARS Manual) requires that refunds of revenues received in a prior year be classified under object code 3804 (Refund – Prior Year Revenue).

We recommend that Office personnel who process transactions be knowledgeable of STARS revenue object code definitions.

## **PAY CALCULATION**

During our test of employee additions, we determined that the Office made an error in its calculation of an employee's paycheck. The Office paid the employee \$165 resulting in an overpayment of \$22.

We also performed follow-up procedures on a payroll calculation error noted during the fiscal year 2006 engagement. The prior year error resulted in an underpayment of \$312. We determined that the Office had attempted to reimburse the employee, but we found that the Office miscalculated the amount due to the employee by \$12.

Sound business practice requires management to establish and maintain effective internal controls to ensure that all salary and wage calculations and payments are accurate. In addition, Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving a salary from the State which is not due or employed by the State from paying salaries or monies not due to State employees.

We recommend that the Office establish and implement preparation and review procedures to ensure that payments to employees are accurate and to ensure timely detection and correction of errors when they occur.

## **EMPLOYER CONTRIBUTIONS**

We noted that the Office did not pay a proportionate share of employer contributions from the general and earmarked funds in fiscal year 2007. In response to our inquiry, the Office explained that because of an anticipated year-end shortage in general funds, the Department transferred the funding source for personal services expenditures (temporary employee salaries) from the general fund to the earmarked fund but did not transfer the associated employer contributions.

Section 8-11-194 of the South Carolina Code of Laws states, in part, the following: “Any agency of the State Government whose operations are covered by funds from other than general fund appropriations must pay from such other sources a proportionate share of the employer costs of retirement, social security, worker’s compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency’s employees.”

We recommend that the Office establish procedures to ensure that employer contributions are distributed proportionately among its funds in accordance with State law.

## **SECTION B - OTHER WEAKNESS**

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**

During our test of disbursements, we noted that the Office assigned the same voucher number (925) to two different transactions.

Effective internal controls require that the Office maintain the numerical sequence of transactions to ensure that all transactions are properly accounted for.

We recommend that the Office establish procedures to ensure that transactions are properly numbered. The Office should also implement procedures to timely detect and correct errors when they occur.

## **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 Office for the fiscal year ended June 30, 2006, and dated February 23, 2007. We determined that the Office has taken adequate corrective action on each of the findings except for the finding titled Payroll Calculation. We repeated that finding in Section A of this report.

## **MANAGEMENT'S RESPONSE**

## **Section A**

### ***Object Code***

It is the policy of the Secretary of State's office to utilize correct object codes for all transactions. In regards to the use of object code 3804 (Refund-Prior Year Revenue) the description also states that "It should be used on disbursements refunding revenue when it is **impractical** to use original revenue object." We did not conclude that the use of the original object code was impractical as tracking program income is crucial. However, we accept the interpretation used by the accountant and will begin using object code 3804 for all such refunds.

### ***Payroll Calculations***

We thank the auditors for discovering the error and we will correct it immediately. The error was the result of an addition error where both the employee and the reviewer made the same miscalculation. We have instituted a procedure where calculations on completed time sheets will be reviewed by two individuals before being processed in the hopes that this and other errors will be prevented in the future.

### ***Employer Contributions***

We appreciate the recommendation to establish office procedures to ensure that employer contributions are distributed proportionately among its funds. In the current fiscal year we have implemented new budgeting procedures to reduce the need to transfer salaries and benefits between funds. However, with budget shortfalls it may become necessary to transfer the payment of salaries and benefits between funds. In these instances every precaution will be taken to ensure no further violations.

## **S e c t i o n   B**

### ***Transaction Sequence***

While we appreciate the recommendation made regarding the numbering of transactions we contend that we had procedures in place to detect the error timely and make corrections. The office was aware of the error and pointed it out to the auditors. Correction of the error entailed making a notation to the event which was completed at the time. Again, while we appreciate the recommendation on transaction sequence; however, with the implementation of the new statewide accounting system we have no control over the numbering of transactions.



## Secretary of State's Response to Accountant's Comments

### Section C

#### *Status of Prior Findings*

We appreciate the recognition of our efforts to correct the previous findings. In reference to the previous failed correction of the payroll finding, we have taken steps to correct the error completely.

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