

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

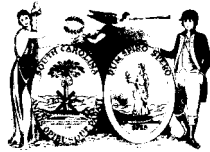
STATE AUDITOR'S REPORT

JUNE 30, 2000

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 29, 2001

The Honorable James M. Miles
Secretary of State
State of South Carolina
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, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 to determine the reasonableness of amounts collected and recorded by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

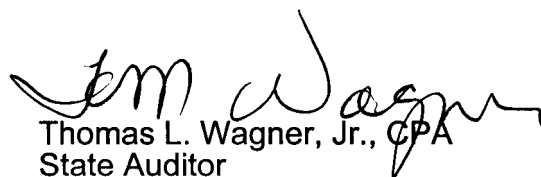
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Office, and were purchased and paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all recorded operating transfers and interagency 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. We judgmentally selected certain large dollar and unusual journal entries for testing. We found no exceptions as a result of the procedures.
5. We tested 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 tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable James M. Miles
Secretary of State
State of South Carolina
June 29, 2001

6. We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2000, and tested 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 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. We judgmentally selected the fiscal year-end reconciliations [fiscal month (FM) 13] and we randomly selected reconciliations for another month for testing. We found no exceptions as a result of the procedures.
7. We tested 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 2000. Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Office and submitted to the State Comptroller General. We reviewed 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 findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Office's financial statements or any part thereof, 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 of the management of the South Carolina 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

WEAKNESSES NOT CONSIDERED MATERIAL

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 weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to use in preparing the State's financial statements. The GAAP Closing Procedures Manual (GAAP Manual) provides guidance for the preparation of accurate and complete closing packages; assigns responsibility for their accuracy; for each completed closing package and the underlying workpapers, requires completion of the checklist as part of the effective independent review thereof; and requires retention of a copy of each completed closing package form and of the related completed checklist and supporting workpapers. As described in Section 1.8 of the GAAP Manual, an "effective review" of each closing package requires assigning responsibility for that review to a knowledgeable supervisory employee who is not the preparer of the package and requires the reviewer to perform various steps, one of which is to "Trace all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself." Furthermore, Section 1.8 of the GAAP Manual states, "An adequate internal control system includes safeguards to ensure ... (the entity) detects and corrects its own closing package errors" before submitting the completed forms to the Comptroller General.

Fixed Assets

During our review of the Fixed Assets Closing Package, we noted that effective April 12, 2000, the Office changed its capitalization criteria by increasing its capitalization limit from \$500 to \$1,000. This \$34,100 reduction was reported in the net corrections to prior year balances column on the General Fixed Assets Summary Form. To determine the reported amount the accounting staff copied all fixed assets valued at less than \$1,000 from the

updated fixed assets file as of April 12, 2000, to a second file documenting the adjustment for assets removed. During this process two items costing more than \$1,000 were mistakenly copied to the second file. As a result, the total of the Agency's fixed assets on the closing package was understated by \$9,596.

GAAP Manual Sections 3.7 through 3.11 provide guidance for completing the various fixed assets closing package forms.

GAAP Manual section 3.8 requires that a change in capitalization limit be effective the first day of the current fiscal year. Because the Office did not implement the change in capitalization policy July 1, current year additions and adjustments were overstated. That is, equipment additions and adjustments related to purchases meeting the old capitalization policy (\$500), but not meeting the new capitalization policy (\$1,000) were both reflected on the fixed asset closing package as an addition and an adjustment.

Miscellaneous Revenues and Accounts Receivable

In our review of the Miscellaneous Revenues Closing Package, we noted that the Office calculated the allowance for uncollectible accounts receivable based on the fiscal month (FM) 12 June 30, 2000, accounts receivable balance. The Agency collected \$5,832 in fiscal month 13 that should have been deducted from the FM 12 balance before the allowance for uncollectible accounts receivable was calculated. As a result of this methodology error, the "allowance for uncollectible accounts receivable" was overstated by \$175 and net receivables were understated.

Section 3.4 of the GAAP Manual contains guidance and instructions for preparing the Miscellaneous Revenues Closing Package forms. The line-by-line instructions for completing the Miscellaneous Accounts Receivable and Related Accounts Summary Form for governmental funds (item 7 on page 19) explains that the allowance is the estimated uncollectible portion of the Office's gross balance of accounts receivable for goods and services provided on or before June 30 for which payment had not been received by July 31.

Recommendations

We recommend the Office report an adjustment to the beginning fixed assets balance, on its fiscal year 2001 closing package to increase it for assets meeting its \$1000 capitalization limit which were deducted in error. We also recommend that Office personnel responsible for completing GAAP closing packages become familiar with GAAP Manual instructions related to recording and reporting changes in accounting policies. Finally, we recommend that the Office assign responsibilities for properly completing and effectively reviewing specific closing packages to adequately trained and knowledgeable employees who are familiar with the financial records and transactions related to the assigned closing packages. The persons performing these duties should be knowledgeable about the applicable GAAP and familiar with the relevant GAAP Manual guidance.

MANAGEMENT'S RESPONSE

STATE OF SOUTH CAROLINA
OFFICE OF THE SECRETARY OF STATE

JIM MILES
SECRETARY OF STATE



P.O. BOX 11350
COLUMBIA, SC 29211

September 25, 2001

Mr. Thomas L. Wagner, Jr.
State Auditor
1401 Main St., Suite 1200
Columbia, SC 29201

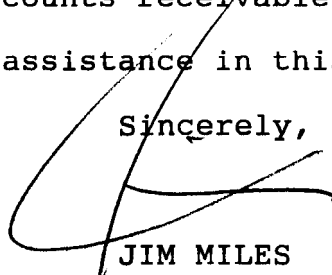
Dear Mr. Wagner:

This office has reviewed the preliminary draft of the report resulting in the recent audit of the agency by the State Auditor's office. We are therefore authorizing the release of this report for the fiscal year ending June 30, 2000.

Replying to the accountant's comments regarding the Fixed Asset (GAAP), the net corrections to the prior year balances was incorrectly calculated and included two (2) items over the capitalization criteria. This correction will be reflected in the Fixed Assets Closing Package for fiscal year 2001. The Miscellaneous Revenue Package overstated the allowance for uncollectible accounts receivable. The Miscellaneous Revenue Package for fiscal year 2001 reported on August 31, 2001 has reflected the correct uncollectible accounts receivable.

Thank you for your assistance in this matter.

Sincerely,



JIM MILES
Secretary of State

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