SOUTH CAROLINA
STATE ETHICS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2005

Digitized by South Carolina State Library

CONTENTS

		PAGE
I.	INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II.	ACCOUNTANT'S COMMENTS	
	SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL	5
	ACCOUNTING SYSTEM	6
	RECONCILIATIONS	7
	SECTION B - STATUS OF PRIOR FINDINGS	9
	MANAGEMENT'S RESPONSE	10

Digitized by South Carolina State Library

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 24, 2006

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, 2005, 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 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.

Digitized by South Carolina State Library

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, 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; 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 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.

Digitized by South Carolina State Library

4. **Journal Entries, Operating Transfers and Appropriation Transfers**
   - We inspected recorded journal entries, 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.

   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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

   Our finding as a result of these procedures is presented in Accounting System in the Accountant's Comment section of this report.

6. **Reconciliations**
   - We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2005, 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 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 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 finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

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 Commission'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 2005.

   We found no exceptions as a result of the procedures.

Digitized by South Carolina State Library

8. **Closing Packages**
   - We obtained copies of all closing packages as of and for the year ended June 30, 2005, 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; if the amounts were reasonable; and if they 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 deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission 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 Commission's accounting records and internal controls for the years ended June 30, 2004, and June 30, 2003.

   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 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 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

Digitized by South Carolina State Library

ACCOUNTANT'S COMMENTS

Digitized by South Carolina State Library

SECTION A - 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.

Digitized by South Carolina State Library

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 accounting 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.

Digitized by South Carolina State Library

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. Because the Commission does not record journal entries that correct subfunds in their accounting records, there are reconciling items that cause the Commission's records to not agree to the Comptroller General's 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, 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 for the years ended June 30, 2004, and June 30, 2003.

Digitized by South Carolina State Library

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.

Digitized by South Carolina State Library

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 Commission for the fiscal year ended June 30, 2002, and dated September 5, 2003. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2004, and June 30, 2003. We determined that the Commission has not taken adequate corrective action on the Accounting System and Reconciliations deficiencies. Therefore, we have reported similar findings in Section A of the Accountant's Comments section of this report.

Digitized by South Carolina State Library

MANAGEMENT'S RESPONSE

The management of the South Carolina State Ethics Commission did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated May 23, 2006.

Digitized by South Carolina State Library

5 copies of this document were published at an estimated printing cost of $1.43 each, and a total printing cost of $7.15. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.

Digitized by South Carolina State Library