

**SOUTH CAROLINA
STATE ETHICS COMMISSION
COLUMBIA, SOUTH CAROLINA**

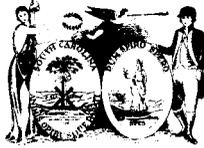
STATE AUDITOR'S REPORT

JUNE 30, 2000

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL	4
ACCOUNTING SYSTEM	5
RECONCILIATION	6
SECTION B - STATUS OF PRIOR FINDINGS	8
MANAGEMENT'S RESPONSE	9

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 6, 2001

The Honorable Jim Hodges, 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, 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 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts 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.

The Honorable Jim Hodges, Governor
and
Members of the Commission
South Carolina State Ethics Commission
April 6, 2001

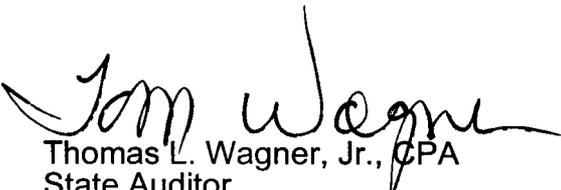
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if internal controls over the 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 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 accounting records 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 accounting records 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 all 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. Our finding as a result of these procedures is presented in Accounting System in the Accountant's Comments section of this report.
5. We tested 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 accounting records; 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 Jim Hodges, Governor
and
Members of the Commission
South Carolina State Ethics Commission
April 6, 2001

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2000, and tested 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 recalculated the amounts, agreed the applicable amounts to the Commission's accounting records, 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliation in the Accountant's Comments section of this report.
7. We tested 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 2000. We found no exceptions as a result of the procedures.
8. We reviewed 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, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures is presented in Reconciliation in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Commission 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. We found no exceptions as a result of the procedures.

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 Commission'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 Governor and of the members and management of the Commission 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 - 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.

ACCOUNTING SYSTEM

During our fiscal year 2000 engagement test work at the State Ethics Commission, we noted several problems with the Commission's accounting system. The Commission uses two independent systems for its accounting records. One system is used for receipts and another for disbursements.

The system used for receipts is spreadsheets. When funds are collected, a three-part receipt is prepared then the receipt information is keyed into the appropriate spreadsheet. There is a separate receipt book and spreadsheet listing for each type of receipt.

The disbursements system was developed by the University of South Carolina specifically for the Commission. Disbursement vouchers are prepared manually and the information from the vouchers is keyed into the system. The disbursement system is very cumbersome and it is difficult to trace documents in it. To determine if transactions are properly recorded requires adding all documents for the month in which the transaction occurred and matching that total to one on a summary report.

The Commission doesn't use a general ledger to record assets, liabilities, and fund balances and to summarize accounting information. Its entire accounting system consists of the two above-described subsidiary ledgers for receipts and disbursements. Because financial information is not summarized, the Commission cannot track its current cash balances but would have to manually compute them when needed: beginning cash balance [from Comptroller General (CG) reports] plus receipts minus disbursements. The Commission does not reconcile cash account balances in its "accounting system" to those on the CG reports. (See the Reconciliation comment which follows.)

Use of a general ledger would improve the Commission's internal controls over budgets and cash balances and would facilitate its reconciliation process. A timely-updated general ledger would provide current balances so the Commission wouldn't have to estimate its cash by using the most recent CG's reports or by making calculations.

We recommend the Commission implement a general ledger system. This does not mean the agency must purchase new accounting software; It could obtain the results and benefits if it would adapt its current system to include general ledger accounts or maintain a manual general ledger. Regardless of the type of accounting system, the Commission must maintain cash accounts in the system.

RECONCILIATION

The Commission does not maintain cash account information in its accounting records or reconcile cash balances. (See the preceding comment.) In our reports for the fiscal years ending June 30, 1999, and June 30, 1998, we reported the same findings that the Commission neither maintains nor reconciles cash accounts. In June 2000 at the end of field work on the fiscal year 1999 engagement, "we were told that cash accounts were established in October 1999 and the Commission prepared reconciliations of ending cash balances during fiscal year 2000."

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires agencies to perform reconciliations of revenue, expenditures, and ending cash balances between those in its internal accounting records and those in the State's accounting system (STARS) at least monthly on a timely basis to help ensure adequate error detection and correction. Such reconciliations also provide significant assurance that transactions are processed correctly both in the Commission's accounting records and in STARS.

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.

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, 1999, and dated June 23, 2000. We determined that the Commission has taken adequate corrective action on each of the findings regarding preparation of closing packages and reporting earmarked subfund transactions. However, we found certain deficiencies reported in the Reconciliations comment still exist and we have repeated them in Section A of the Accountant's Comments in this report.

MANAGEMENT'S RESPONSE

State of South Carolina State Ethics Commission

COMMISSIONERS
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CHAIRMAN
ANDREW C. MARINE, 3RD DISTRICT
VICE CHAIRMAN
JESSAMINE D. GRIFFIN, 1ST DISTRICT
JOHN T. MOBLEY, 2ND DISTRICT



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PETE G. DIAMADUROS, 4TH DISTRICT
PETER C. COGGESHALL, JR., 5TH DISTRICT
MARY T. WILLIAMS, 6TH DISTRICT
FLYNN T. HARRELL, MEMBER AT LARGE
GREGORY P. HARRIS, MEMBER AT LARGE

5000 THURMOND MALL, SUITE 250
COLUMBIA, S.C. 29201

HERBERT R. HAYDEN, JR.
EXECUTIVE DIRECTOR

May 23, 2001

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

Dear Mr. Wagner:

In response to your letter of May 11, 2001, I have reviewed the preliminary draft copy of your report on the State Ethics Commission for the fiscal year ending June 30, 2000.

The auditor found no material weaknesses; however, made two comments on areas which, in her opinion, are weaknesses in the Commission's internal controls. I offer the following response.

ACCOUNTING SYSTEM

1. While its obvious this year's auditor disliked the agency's system, it works for this agency.
2. The system is one the auditor was obviously not familiar with.
3. Comments that the system is "cumbersome" and "difficult to trace documents in it" are indications that she was not willing to take the time to understand the system.
4. There were no errors noted, and we've had no complaints from the Comptroller General's office to indicate that proper information was not being provided.

The auditors recommended that the Commission implement a general ledger system. The Commission will take this recommendation into consideration.

Mr. Thomas L. Wagner, Jr.

May 23, 2001

Page 2 of 2

RECONCILIATION

The report indicates that the Commission does not maintain cash account information in its accounting records or reconcile cash balances as required by the STARS manual. I will review this matter, and if true, the Commission will initiate the necessary procedures to comply with Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual.

You may consider this letter authorization to release your report. Also, as requested, attached is a list of the current Commission members and mailing addresses, and a copy of this response on diskette.

Sincerely,



Herbert R. Hayden, Jr.
Executive Director

HRHjr:arf

Enclosures: Current Commission Member List
Diskette

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