

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

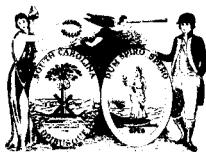
STATE AUDITOR'S REPORT

JUNE 30, 2002

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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

September 5, 2003

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 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, 2002, 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:

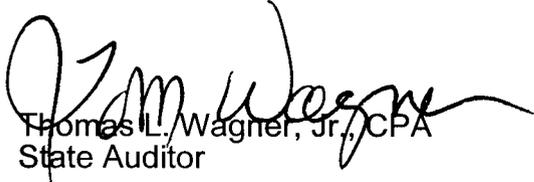
1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the 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. 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 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 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 employees who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the subsidiary ledger 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; and comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions. 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, 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. The individual transactions selected for testing were chosen randomly. 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.

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2002, 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 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 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 Reconciliations 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 2002. 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, 2001, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Accounting System and Reconciliations 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, 2002, 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 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.


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 testwork at the Commission, we noted several problems regarding the Commission's accounting system. The Commission uses two independent systems for their accounting records. One system records receipts and the other records disbursements.

The receipts system is a spreadsheet program. Duplicate receipt books are used to record the receipt and the information is then keyed from the receipt into the spreadsheet. A separate listing and receipt book is maintained for each type of receipt.

The University of South Carolina developed the disbursements system for the Commission. Disbursement vouchers are manually prepared and the information from the vouchers is keyed into the system. The disbursement system does not allow for segregation of expenditures by fund (see Reconciliations comment).

The receipts and disbursement system currently used by the Commission are subsidiary ledgers. At no time does the Commission accumulate information into a general ledger system. These separate ledgers should roll up into a general ledger. Since the information is not accumulated, the Commission cannot trace their cash balances. The beginning cash balance plus receipts and minus disbursements would be the Commission's current cash balance. The Commission does not maintain or reconcile cash accounts in their accounting system (see the Reconciliations Comment).

The Commission's lack of a general ledger also means that many types of accounting transactions are not posted to the agency's accounting records. Entries such as journal entries and appropriation transfers are not recorded in the agency's accounting records because there is no general ledger to post them to. Therefore, the Commission's accounting records do not accurately reflect the Commission's current status. The Commission relies solely on the accuracy of the Comptroller General's reports.

A general ledger would improve the Commission's internal controls. It would aid the Commission in their reconciliation process. It would also allow the Commission to have current information regarding its operations without waiting for the Comptroller General's reports or making calculations to estimate cash.

Similar comments were noted in the report for the fiscal year ending June 30, 2001 and June 30, 2000.

We recommend the Commission acquire and utilize a general ledger system. The Commission does not have to purchase new accounting software, only adapt their current system or maintain a manual general ledger. The Commission must also maintain cash accounts on its accounting system.

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. We also noted a year-end reconciling item in revenues and cash receipts. The Commission investigated the variance but were unable to locate the source of the variance. 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 years ending June 30, 2001, June 30, 2000, June 30, 1999, and June 30, 1998.

We recommend that 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, 2001, and dated August 20, 2002. 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.

MANAGEMENT'S RESPONSE

State of South Carolina State Ethics Commission

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CHAIRMAN
KENNETH C. KRAWCHECK, MEMBER AT LARGE
VICE CHAIRMAN
JESSAMINE D. GRIFFIN, 1ST DISTRICT
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MARY T. WILLIAMS, 6TH DISTRICT
FLYNN T. HARRELL, MEMBER AT LARGE

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

HERBERT R. HAYDEN, JR.
EXECUTIVE DIRECTOR

October 2, 2003

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

Dear Mr. Wagner:

In response to your letter of September 19, 2003, I have reviewed the preliminary draft copy of your report on the State Ethics Commission for the fiscal year ending June 30, 2002. The audit team assigned to the Commission was very proficient, and conducted themselves in a very professional manner. The audit conducted produced no material weaknesses; however, the report comments on three areas, Accounting System, Reconciliations, and Prior Findings. The following comments are offered in response.

ACCOUNTING SYSTEM

For the past three years the audit team which has audited the Commission has been concerned with the fact that the Commission does not utilize a general ledger system. The Commission's accounting system was developed by the University of South Carolina, and has served the Commission's needs for many years. The lack of a general ledger is not a problem for the Commission, Commission's staff, and to my knowledge, has not been a problem for the Comptroller General's staff. Further, it was not an issue for the many auditors who audited the Commission for twenty-three years before.

The Commission's records contain documentation of every transaction which has occurred, and are reconciled with the Comptroller General's reports on a monthly basis. We do not rely solely on the Comptroller General's monthly reports; however, do not feel it is necessary to know fund balances on a daily basis. For the Commission's needs, considering the small amount of our budget, a monthly reconciliation is sufficient. Further elaboration is provided in the Reconciliations section which follows.

RECONCILIATIONS

The Commission prints six monthly operating reports at the beginning of each month covering financial activities for the previous month. These reports are reconciled to the Comptroller General's reports on a monthly basis.

As indicated, it is true the Commission does not maintain a general ledger. According to the technical support staff from the University, our accounting system is not capable of this action. However, information that would be found on a general ledger can be found in one of the Commission's monthly operating reports, along with the documentation for each report. These reports are used individually and together with the Comptroller General's reports to reconcile each month's activities. The Commission feels that the reconciliation process in use is sufficient and any errors detected are reported and researched immediately.

Journal entries are recorded in the Commission's accounting records when processed. Subfunds are always changed in the computer records from the paper records.

The variance mentioned in your report was researched and the minor difference determined not to be the Commission's error. The difference in question resulted from information provided to the Comptroller General's office by another state agency indicating that funds were collected on behalf of the Commission and transferred to the general fund. The Commission's records do not reflect such a transfer. Our records do reflect a transfer for each collection account which should have a transfer. Therefore, I must assume that the transfer was improperly credited to the Commission by the other agency. The Commission cannot reconcile a matter which we did not create, or for which we have no knowledge or records.

PRIOR FINDINGS

Your report indicates that the Commission has not taken adequate corrective action on the Accounting System and Reconciliations deficiencies. As noted in your report these were recommendations. I fail to understand how they can be considered deficiencies if they are only your recommendations.

Nevertheless, after being notified last year of your staff's desire for the Commission to establish a general ledger, I advised the audit manager that neither I nor my staff was familiar with a general ledger. I asked that an example of what they wanted be provided along with some advice and guidance on how to create and what information should be included in the ledger. I have yet to receive any such example or guidance.

Since this is just a recommendation, I am not inclined to expend funds and/or staff time to create and maintain a document which we see no need for, and which will be duplicative of information already available.

Mr. Thomas L. Wagner, Jr.
October 2, 2003
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You may consider this letter as authorization to release your report. Also, as requested, attached is a list of current Commission members and mailing addresses, and a copy of this response on diskette.

Sincerely,



Herbert R. Hayden, Jr.
Executive Director

HRHjr:arf

Enclosure: List of Current Commissioners
Disk

5 copies of this document were published at an estimated printing cost of \$1.47 each, and a total printing cost of \$7.35. The FY 2003-04 Appropriation Act requires that this information on printing costs be added to the document.