

**SOUTH CAROLINA  
STATE ETHICS COMMISSION  
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

August 5, 2008

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, 2007, 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 in accordance with the agency's policies and procedures and State regulations.
- 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes of earmarked funds to ensure that revenue was classified properly in the Commission's accounting records. The scope was based on agreed upon materiality level of \$5,400 and  $\pm 10$  percent.

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 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.
- 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 (\$8,900 – general fund and \$5,200 – earmarked fund) and  $\pm 10$  percent.

The individual transactions were chosen randomly. Our finding as a result of these procedures is presented in Object Code 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 selected 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 payroll expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$8,900– general fund and \$5,200 – 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 were chosen randomly. Our findings as a result of these procedures are presented in Distribution of Employer Contributions and Payroll Calculation in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Interagency Appropriation Transfers**

- We inspected selected recorded journal entries and interagency appropriation transfers, and all operating 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, and the transactions were properly approved were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry and interagency appropriation transfer transactions 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 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2007, 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 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 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. 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 Commission'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 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 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 Commission from our engagement for the fiscal year ended June 30, 2006, to determine if the Commission had taken corrective action.

Our finding as a result of these procedures is presented in Object Code in the Accountant's Comment 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 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

**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**

While testing cash disbursements we noted one voucher was coded to an incorrect object code. The Commission recorded a copier lease using object code 0301 (Office Supplies). The Commission should have used object code 0408 (Contingent Rental Payments) to record the copier lease expenditure.

Section 2.1.6.0 of the Statewide Accounting and Recording (STARS) Manual, defines object codes.

We recommend the Commission develop and implement procedures to ensure that expenditure are properly classified in the agency and/or STARS accounting system.

## **DISTRIBUTION OF EMPLOYER CONTRIBUTIONS**

Section 8-11-194 of South Carolina Code of Laws states, “Any agency of 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 agency’s employees.”

The Commission expended earmarked funds for personal services but did not expend a proportionate share of earmarked funds for employer contributions.

We recommend the Commission allocate employer contributions based on personal service costs.

## **PAYROLL CALCULATION**

During our test of employees who terminated their employment during fiscal year 2007 we found that the final pay calculation for one employee was incorrect. The Commission did not include the annual leave hours earned by the employee during his final month of employment. Based on our review we noted that the employee was in pay status for more than one-half of the month. According to Section 19-709.02 (A) (1) of the South Carolina Human Resource Regulations, "Employees who are in pay status one-half or more but not all the workdays of the month shall earn annual leave for the full month." We determined that the employee was underpaid \$107.

We recommend the Commission develop and implement procedures to ensure that payments made to employees are accurate. We recommend the procedures include independent reviews of payroll calculations and verification of leave balances. Finally we recommend the Commission compensate the employee who was underpaid.

## **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, 2006, and dated June 7, 2007. We determined that the Commission has taken adequate corrective action on the findings entitled Expenditures by Fiscal Year, Accounting System, Reconciliations, and Compensated Absences Closing Package. We have repeated the finding titled Object Code.

**MANAGEMENT'S RESPONSE**

# State of South Carolina State Ethics Commission

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G. CARLTON MANLEY, MEMBER AT LARGE

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

HERBERT R. HAYDEN, JR.  
EXECUTIVE DIRECTOR

November 3, 2008

Mr. Richard H. Gilbert, Jr.  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

In response to your letter, I have reviewed the preliminary draft copy of your report for the fiscal year ended June 30, 2006. As requested, the following comments are provided:

### SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

**OBJECT CODES:** An incorrect object code was used to record a copier lease at the end of the fiscal year. The error was detected in the twelfth month report, however was too late to correct before the final report of the fiscal year. It was a paperwork error only.

**DISTRIBUTION OF EMPLOYER CONTRIBUTIONS:** Salaries were paid from earmarked funds; however, employer contributions were not. This has been corrected in FY2009 and will not occur again.

**PAYROLL CALCULATION:** A former employee's annual leave was calculated incorrectly by the former Human Resource Manager. Payment was processed with the October 16, 2008 payroll and a check was mailed certified to the former employee on October 20, 2008.

You may consider this letter authorization to release your report. As requested, attached is a list of the current Commissioners and mailing addresses along with a copy of this response on diskette.

Sincerely,



Herbert R. Hayden, Jr.  
Executive Director

HRHjr:arf

Enclosures: Diskette  
List of Commissioners

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