

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

STATE AUDITOR'S REPORT

JUNE 30, 2011

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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

July 11, 2012

The Honorable Nikki R. Haley, 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, 2011, 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 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 account 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 agency's accounting records. The scope was based on agreed upon materiality level of \$5,700 and ± 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 current year expenditures at the subfund and account 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 (\$5,300 – general fund, and \$7,700 – earmarked fund) and ± 10 percent.

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 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 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 current year payroll expenditures at the subfund and account 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 (\$5,300 – general fund, and \$7,700 – earmarked fund) and ± 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 ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Distribution of Employer Contributions in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

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

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Distribution of Employer Contributions in the Accountant's Comments section of this report.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2011, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

7. **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 resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010, 2009, and 2008.

Our finding as a result of these procedures is presented in Distribution of Employer Contributions in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina State Ethics Commission
July 11, 2012

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 South Carolina State Ethics Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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.

DISTRIBUTION OF EMPLOYER CONTRIBUTIONS

The accountant's comment titled Distribution of Employer Contributions reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2007 cited the Commission for expending earmarked funds on personal services without expending a proportionate share of earmarked funds for employer contributions. Our review revealed the same condition for the fiscal year ended June 30, 2011.

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."

Based on our review, factors that contributed to the fiscal year 2011 discrepancy included the refund of a prior year overpayment of fringe benefits improperly charged as a reduction of current year earmarked fund fringe benefit expenditure and charging all the cost of workers compensation insurance and unemployment insurance to general funds.

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

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." Our testing of the Commission's closing packages disclosed the following exceptions:

Capital Assets Reporting Package

The Commission submitted a Capital Assets Summary Form (form 3.8.2) even though the form was not required based on the Commission's responses reported on the Capital Assets Questionnaire (form 3.8.1). The information reported on the Capital Assets Summary Form included a net correction to beginning balances although no such correction was necessary. The Capital Assets Summary Form was filed in error because Commission staff misinterpreted the reporting package instructions.

Litigation Reporting Package

The Commission did not submit the "Litigation Contingency Report Form" (form 3.13.4). Based on our review of the "Payments to Private Attorney Form" (form 3.13.2) the Commission should have completed and submitted form 3.13.4. The Commission could not explain why the form was omitted. Even though the form was not completed we were able to conclude that no relevant litigation was omitted.

We recommend that the Commission develop and implement procedures to ensure that all closing packages are completed in accordance with the Reporting Policies and Procedures Manual and forms instructions. Furthermore, we recommend that the Commission make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

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, 2007, and dated August 5, 2008. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2010, 2009, and 2008. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated the finding titled Distribution of Employer Contributions.

MANAGEMENT'S RESPONSE

State of South Carolina
State Ethics Commission

COMMISSIONERS
PHILLIP FLORENCE, JR., MEMBER AT LARGE
CHAIR
E. KAY BIERMANN BROHL, 3rd DISTRICT,
VICE CHAIR
RICHARD H. FITZGERALD, 1st DISTRICT



COMMISSIONERS
EDWARD E. DURYEY, 2nd DISTRICT
JB HOLEMAN, 4th DISTRICT
JONATHAN H. BURNETT, 5th DISTRICT
PRISCILLA L. TANNER, 6th DISTRICT
G. CARLTON MANLEY, MEMBER AT LARGE
VACANT, MEMBER AT LARGE

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

HERBERT R. HAYDEN, JR.
EXECUTIVE DIRECTOR

August 8, 2012

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

RE: Audit of Fiscal Year 2011

Dear Mr. Gilbert:

In response to your letter, I have reviewed the preliminary draft copy of your report for the fiscal year ending June 30, 2011. As requested, the following comments are provided:

DISTRIBUTION OF EMPLOYER CONTRIBUTIONS

The accountant's comment titled Distribution of Employer Contributions reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2007 cited the Commission for expending earmarked funds on personal services without expending a proportionate share of earmarked funds for employer contributions. Our review revealed the same condition for the fiscal year ended June 30, 2011.

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."

Based on our review, factors that contributed to the fiscal year 2011 discrepancy included the refund of a prior year overpayment of fringe benefits improperly charged as a reduction of

current year earmarked fund fringe benefit expenditure and charging all the cost of workers compensation insurance and unemployment insurance to general funds.

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

Response:

Staff was told in SCEIS training that employer contributions were distributed equally based on the funding source for employees. The workers compensation insurance and unemployment insurance had always been paid from one fund rather than split and previous audits never mentioned splitting this invoices.

Staff has taken measures to begin splitting the costs of these invoices.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." Our testing of the Commission's closing packages disclosed the following exceptions:

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Litigation Reporting Package

The Commission did not submit the "Litigation Contingency Report Form" (form 3.13.4). Based on our review of the "Payments to Private Attorney Form" (form 3.13.2) the Commission should have completed and submitted form 3.13.4. The Commission could not explain why the form was omitted. Even though the form was not completed we were able to conclude that no relevant litigation was omitted.

We recommend that the Commission develop and implement procedures to ensure that all closing packages are completed in accordance with the Reporting Policies and Procedures Manual and forms instructions. Furthermore, we recommend that the Commission make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

Response:

Capital Assets – According to the audit, form 3.8.2 should not have been submitted, however, the Comptroller General's Office received the form and never contacted agency staff about correcting the error. Had the staff been contacted the form could have been corrected.

Litigation - According to the audit, form 3.13.4 should have been submitted, however, the Comptroller General's Office received the Litigation Reporting Package and never contacted agency staff about submitting form 3.13.4. Had the staff been contacted the form could have been corrected.

All litigation was reported in the Litigation Reporting Package.

You may consider this letter authorization to release your report. As requested, attached is a list of the current Commissioners and their mailing and e-mail addresses.

Sincerely,



Herbert K. Hayden, Jr.
Executive Director

HRHjr:arf

Enclosure: Commissioner List

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.