

**SOUTH CAROLINA  
STATE ETHICS COMMISSION  
COLUMBIA, SOUTH CAROLINA  
  
STATE AUDITOR'S REPORT  
  
JUNE 30, 2013**

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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, 2014

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, 2013, 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 in 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 \$7,600 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 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 (\$6,100 – general fund, and \$8,700 – earmarked fund) and  $\pm 10$  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 to determine if the employees were added to the payroll in accordance with the agency's policies and procedures, that the employee's first pay check 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 (\$6,100 – general fund, and \$8,700 – 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  $\pm 10$  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 Employee Payment 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.

We found no exceptions as a result of the procedures.

5. **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 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, 2013, 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 reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Operating Leases Reporting Package 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, 2011, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012.

Our finding as a result of these procedures is presented in Operating Leases Reporting Package 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  
August 5, 2014

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 - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

## **OPERATING LEASES REPORTING PACKAGE**

The accountant's comment titled Reporting Packages reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2011, reported several exceptions associated with the completion of the year end 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 reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

The Commission inaccurately reported no required minimum lease payments for operating leases on its 2013 Operating Leases reporting package, form 3.09.1. Instead of responding that its leases included payments for operating leases, the Commission reported the applicable payments as one-time rental payments. Had the Commission completed form 3.09.1 correctly, the Commission would have been instructed to complete form 3.09.1a, and report future minimum lease payments for financial reporting purposes. A misinterpretation of the reporting package instructions led to the oversight which resulted in this exception.

We recommend that the Commission strengthen its policies and procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual and forms instructions.

**SECTION B – OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

## **EMPLOYEE PAYMENT**

One of twenty-five employee payments randomly selected for testing included a bonus payment awarded to an employee. The amount paid to the employee exceeded the amount approved for payment by \$30. The overpayment occurred as a result of a processing error which was not detected by the agency's control procedures.

Effective internal controls require safeguards to ensure that transactions are properly reviewed and approved to ensure proper payment.

We recommend that the Commission strengthen its policies and procedures over internal controls. The Commission's procedures should ensure that the person performing the independent review of disbursement transactions verifies that the disbursement amount agrees with support documentation.

## **SECTION C - 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, 2011, and dated July 11, 2012. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated Reporting Packages in a similar finding titled Operating Leases Reporting Package.

**MANAGEMENT'S RESPONSE**

# State of South Carolina

## State Ethics Commission

### COMMISSIONERS

JAMES H. BURNS, 2<sup>nd</sup> DISTRICT, CHAIR  
SHERRI A. LYDON, MEMBER AT LARGE,  
VICE CHAIR  
FRANCIS E. GRIMBALL, 1<sup>st</sup> DISTRICT  
SANDY TEMPLETON, 3<sup>rd</sup> DISTRICT



### COMMISSIONERS

JAMES I. WARREN, III, 4<sup>th</sup> DISTRICT  
TWANA BURRIS-ALCIDE, 5<sup>th</sup> DISTRICT  
REGINA HOLLINS LEWIS, 6<sup>th</sup> DISTRICT  
JULIE J. MOOSE, 7<sup>th</sup> DISTRICT  
THOMAS M. GALARDI, MEMBER AT LARGE

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

HERBERT R. HAYDEN, JR.  
EXECUTIVE DIRECTOR

August 19, 2014

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

Dear Mr. Gilbert:

Thank you for the opportunity to address the two issues discovered during the audit of the State Ethics Commission for the fiscal year ending June 30, 2013. I have reviewed your report and discussed the issues with Ms. Ami R. Franklin, the Commission's Assistant Director for Administration. We believe that both issues were inadvertent errors which should have been discovered; however, were not. Each is addressed below.

#### Operating Leases Reporting Package

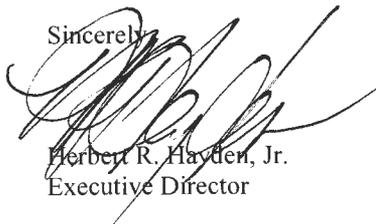
As a result of a misinterpretation of the instructions, the Commission's annual office rent payments were listed on the wrong form, and omitted from the correct form. The total expenditure was correct; however, was inadvertently disclosed in the wrong location. Action will be taken to ensure this information is reported on the correct form in the future.

#### Employee Payment

During the process of submitting requests for employee bonuses, a typo occurred and the amount of one employee's payment was incorrectly entered on one of the three forms which were sent to the Comptroller General's office. The correct amount was entered on two of the forms; however, the error was not detected by the employee completing the forms, the agency head who reviewed and approved the forms, or the Comptroller General's Office. Efforts will be made in the future to avoid such errors.

Your staff conducted themselves professionally and courteously during this engagement. Feedback was provided to the Commission staff in a timely manner and the process was completed without interruption of the Commission's daily mission.

Sincerely,



Herbert R. Hayden, Jr.  
Executive Director

HRHjr:arf

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