

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

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 30, 2015

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, 2014, 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 twenty-five 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 five 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 the 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 \$7,000 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 twenty-five 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 five 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 ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and 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 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 ± 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected all 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 were 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 as listed in the Appropriation Act work program and agency specific provisos, if applicable.

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, 2014, 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, 2013, to determine if the Commission had taken corrective action.

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
March 30, 2015

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 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 Operating Leases Reporting Package reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2013 cited the Commission for not reporting the required minimum lease payments for its operating leases.

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 reported future minimum lease payments for operating leases on form 3.09.1a of the 2014 reporting package as required. However, Commission staff made clerical errors which impacted the accuracy of the reported future minimum lease payments. One operating lease with an annual lease obligation of approximately \$1,400 was excluded from the future minimum lease payment schedule, form 3.09.1a; and future minimum lease payments of approximately \$31,000 were inadvertently excluded from the minimum lease payments of a reported lease. Misinterpretation of reporting package instructions contributed to these errors.

We recommend the Commission continue to 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.

TRAVEL DOCUMENTATION

The Commission could not provide supporting documentation for one of twenty-five non-payroll disbursement transactions tested. The Commission reimbursed one employee approximately \$131 for mileage while traveling on official business however the Commission could not provide documentation in the form of a travel voucher to support the trip. Upon further investigation we determined the employee had made four separate trips to the destination described in the selected transaction. Commission personnel could only provide documentation (i.e. travel voucher) supporting three trips and they could not explain why the documentation for the fourth trip had not been scanned into SCEIS.

An effective system of internal controls includes controls to ensure that all accounting transactions are adequately supported by source documentation.

We recommend the Commission develop and implement employee travel reimbursement procedures to ensure that all transactions processed through the accounting system are adequately supported by source 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, 2013, and dated August 5, 2014. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated Operating Leases Reporting Package.

MANAGEMENT'S RESPONSE

State of South Carolina State Ethics Commission

COMMISSIONERS

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CHAIR
SHERRI A. LYDON, MEMBER AT LARGE,
VICE CHAIR
THOMAS M. GALARDI, 2nd DISTRICT
FRANCIS E. GRIMBALL, 1st DISTRICT



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

HERBERT R. HAYDEN, JR.
EXECUTIVE DIRECTOR

April 15, 2015

COMMISSIONERS

SANDY TEMPLETON, 3rd DISTRICT
TWANA BURRIS-ALCIDE, 5th DISTRICT
REGINA HOLLINS LEWIS, 6th DISTRICT
JULIE J. MOOSE, 7th DISTRICT
BRIAN M. BARNWELL, MEMBER AT LARGE

Mr. Richard H. Gilbert, 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, 2014. 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 reporting package instructions, the Commission's annual future minimum lease payments for operating leases did not report an annual lease obligation of approximately \$1,400.00 and future minimum lease payments of approximately \$31,000 were inadvertently excluded from the minimum lease payments. Action will be taken to ensure this information is correctly reported in the future.

Travel Documentation

During the process of reimbursement for a travel voucher, the supporting documentation was not attached to support the trip. 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 and the process was completed without interruption of the Commission's daily mission.

Sincerely,

A handwritten signature in black ink, appearing to read "Herb Hayden, Jr.", is written over a faint, larger version of the signature.

Herbert R. Hayden, Jr.
Executive Director

HRHjr:arf

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.