

**SOUTH CAROLINA
STATE ELECTION 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

August 13, 2015

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina State Election 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 Election 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 15 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 5 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 general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$0 – general fund, \$13,100 – earmarked fund, \$300 – restricted fund, and \$800 – federal fund) 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 twenty 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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$21,500 – general fund, \$17,700 – earmarked fund, \$19,600 – restricted fund, and \$6,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Accounting for Software Costs 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 inspected payroll transactions for two new employees and three individuals 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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$21,500 – general fund, \$17,700 – earmarked fund, \$19,600 – restricted fund, and \$6,000 – federal 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 Interagency Appropriation Transfers**

- We inspected five selected recorded journal entries and all (one) interagency 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 journal entry transactions selected were chosen randomly. 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 closing packages agreed with the supporting workpapers and accounting records.

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

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, prepared by the Commission and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. **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 findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina State Election Commission
August 13, 2015

The concept of materiality does not apply to findings to be reported in the agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures (AUP):

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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 Election 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.

REPORTING PACKAGES

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Commission submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared or misstated. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors casts doubt on the ability of the State's internal controls to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. Preparation and maintenance of working papers is a primary responsibility of each agency. The following describes the errors noted on certain fiscal year 2014 reporting packages:

Operating Leases Reporting Package

During our testing of the Operating Leases Reporting Package, we noted the following:

1. A \$353 lease payment for a copier was classified and reported as supplies and other billing charges on Part I of the Operating Leases Summary Form – Lessee (form 3.09.1). It should have been reported as a required minimum lease payment and also should have been reported on Part V of form 3.09.1a - Future Minimum Lease Payments Schedule.
2. A lease payment of \$146 made to a vendor after the contract expired was reported as a 'one-time payment' on Part I of form 3.09. This payment should have been omitted from the reporting package. The invoice was paid during the process of transferring the lease to a different vendor and we noted that the Commission did receive a refund.
3. The effective dates for two lease agreements were reported incorrectly on Part V of form 3.09.1a. As a result, the future minimum lease payment for one lease was overstated for fiscal year 2017 and was understated for the other lease for fiscal year 2018.
4. The Commission did not include applicable sales tax in the future minimum lease payments for one lease reported on Part V of form 3.09.1a; therefore the future minimum lease payments for this lease were understated for fiscal years 2015 through 2018.
5. For one lease reported on Part V of form 3.09.1a, the Commission overstated the future minimum lease payment for fiscal year 2016.

As a result of 3 through 5, the total future minimum lease payment reported on Part V of form 3.09.1a – Future Minimum Lease Payments Schedule was understated by \$187 for fiscal year 2015, overstated by \$166 for fiscal year 2016, overstated by \$4,051 for fiscal year 2017 and understated by \$2,527 for fiscal year 2018.

Commission personnel stated the errors noted were due to oversight.

Accounts Payable Reporting Package

During our review of the Accounts Payable Reporting Package, we noted that an accounts payable amount of \$375 reported on the AP Reconciliation Form (form 3.12.1) was not classified and reported on the Accounts Payable Summary Form (form 3.12.2).

Commission personnel stated the omission was due to oversight.

Section 3.12 of the Comptroller General's Reporting Package Policies and Procedures Manual states, "After payables have been identified and a valuation has been determined, the payables must be separated into the categories listed on the reporting package."

Subsequent Events Questionnaire

The Commission documented on the Subsequent Events Questionnaire that additional payables had been identified since the submission of their Accounts Payable Reporting Package. During our review of the supporting accounts payable listing, we noted two items totaling \$246,117 should have been omitted from the listing. These items were expenses for services to be provided in fiscal year 2015 and therefore not a liability of the Commission as of June 30, 2014. Commission personnel stated the error was due to oversight.

Timely Submission

We determined the Master Reporting Package was submitted three business days late, the Fund Balance Classification Reporting Package was submitted two business days late, and the Subsequent Events Questionnaire was submitted one business day late. Due dates

for reporting packages are established by the Comptroller General's Office. Commission personnel stated the Master Reporting Package and Fund Balance Classification Reporting Package were submitted late due to a change in employees for accounts payable and accounts receivable. Commission personnel also stated that the Subsequent Events Questionnaire was submitted late due to unexpected issues regarding compensated absences. Assistance was needed from the SCEIS team and the matter was not resolved until November 10th. The reporting package was then submitted the same day.

Recommendation

We recommend the Commission strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Commission personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

ACCOUNTING FOR SOFTWARE COSTS

We noted a significant variance during our analytical review of expenditure accounts for general ledger account number 5021500000 (management consultant fees). Commission personnel stated the Commission had incurred costs in fiscal year 2014 for the development and implementation of new modules for its VREMS (Voter Registration and Election Management System) software project. The supporting documentation for these costs indicated that the cost of one of the new modules met the state's capitalization threshold for software. We could not determine if costs incurred for the other module were for development and implementation or were for maintenance costs. We noted a similar finding reported in our State Auditor's Report on the Commission for the fiscal year ended June 30, 2011, and dated September 11, 2012.

Section 8 of the Comptroller General's Office Reporting Policies and Procedures Manual specifies requirements for capitalizing software expenditures developed by third party contractors. The procedures manual states that costs incurred during the application and development stage of the project (e.g., design, coding, installation, and testing) should be capitalized and that agencies should capitalize a software module if its cost exceeds the \$100,000 capitalization threshold.

We recommend the Commission review the costs incurred for these modules and determine what costs, if any, should be capitalized. Based on this analysis the Commission should adjust future reporting packages.

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, 2013, and dated October 24, 2014. We determined that the Commission has taken adequate corrective action on the deficiencies titled Personal Property Inventory and Vendor Overpayment. In response to our inquiries, we were informed that the Commission has developed and implemented procedures to correct the deficiencies titled Account Coding, Timely Payment of Invoices and Journal Entry Approval and Documentation. However, because the procedures were implemented after June 30, 2014, we did not perform tests of the new procedures. We did, however, note additional deficiencies during our testwork which will be reported in a similar finding titled Reporting Packages in Section A of the report.

MANAGEMENT'S RESPONSE

September 24, 2015

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

Dear Mr. Gilbert,

I have reviewed the preliminary draft copy of the report resulting from the Office of the State Auditor's performance of agreed-upon procedures to the accounting records of the South Carolina State Election Commission (SEC). The SEC hereby authorizes release of the report. The Agency's responses to the Accountant's Comments are as follows:

COMMISSIONERS

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E. ALLEN DAWSON

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REPORTING PACKAGES

Operating Leases

Commission personnel concur with this finding and further stated that all individuals completing and reviewing the operating leases closing package will work diligently to ensure that all information is accurately reported in the future.

Accounts Payable

Commission personnel concur with this finding and further clarified that the omission was due to a lack of understanding the need to further break down the single transaction. Commission personnel are now aware of the requirements regarding this package and will follow them accordingly.

Subsequent Events

Commission personnel concur with this finding. Commission personnel stated that the Master Reporting package and Fund Balance Classification Reporting package were submitted late due to a change in employees in accounts payable/receivable and in human resources. Commission personnel also stated that the Subsequent Events Questionnaire was submitted late due to unexpected issues regarding compensated absences. Assistance was needed from the SCEIS team and the matter was not resolved until November 10th. The reporting package was then submitted the same day.

Timely Submission

Commission personnel will work to ensure that all future closing packages are submitted accurately and in a timely manner.

ACCOUNTING FOR SOFTWARE COSTS

Commission personnel stated that the Electronic Voter Registration List (EVRL) module was an existing module in the Voter Registration and Election Management System (VREMS) and that the expenses incurred during FY2013-14 were for enhancements to the system. The costs to develop the initial EVRL module were included in the initial capitalization costs of VREMS. The Candidate Filing module was, however, a new module. The SEC will review all costs associated with the Candidate Filing software module in order to determine which costs, if any, should be capitalized. If necessary, the SEC will capitalize the Candidate Filing software accordingly.

Sincerely,



Marci Andino
Executive Director

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