SOUTH CAROLINA
OFFICE OF THE SECRETARY OF STATE

COLUMBIA, SOUTH CAROLINA

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JUNE 30, 2011

State of South Carolina

Office of the State Auditor

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May 23, 2012

The Honorable Mark Hammond
Secretary of State
South Carolina Office of the Secretary of State
Columbia, South Carolina 29201

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Office of the Secretary of State for the fiscal year ended June 30, 2011, was issued by Rogers Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA OFFICE OF THE SECRETARY OF STATE
COLUMBIA, SOUTH CAROLINA

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the Secretary of State ("the Office") and South Carolina Office of the State Auditor solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2011, in the areas addressed. The Office'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 the general and earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels ($36,317 – general fund, and $14,047 – earmarked fund) and +/- 10 percent.

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

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 Office, 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.

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- 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 ($9,936 – general fund, and $15,296 – earmarked fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented 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 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 ($9,936 – general fund, and $15,296 – 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 findings as a result of these procedures are presented in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**
   - We inspected selected recorded journal entries, operating transfers, 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 the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**
   - We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2011, and inspected selected reconciliations of balances in the agency's accounting records to those reflected on the State Treasurer's Office monthly 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 agency's general ledger, agree the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the agency's accounting records.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.

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

   We found no exceptions as a result of the procedures.

7. **Reporting Packages**
   - We obtained copies of all Reporting packages as of and for the year ended June 30, 2011, prepared by the Office and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Reporting Procedures Manual requirements and if the amounts reported in the Reporting packages agreed with the supporting workpapers and accounting records.

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

8. **Status of Prior Year Findings**
   - We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's report on the Office resulting from the engagement for the fiscal year ended June 30, 2007 to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the years ended June 30, 2008, June 30, 2009, or June 30, 2010.

   Our findings as a result of these procedures are presented in the Accountant's Comments 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 Secretary of State, management of the South Carolina Office of the Secretary of State, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Lalan, PA

May 17, 2012

SOUTH CAROLINA OFFICE OF THE SECRETARY OF STATE
COLUMBIA, SOUTH CAROLINA

ACCOUNTANT'S COMMENTS
JUNE 30, 2011

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

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual (Summary of Agency Responsibilities) 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." We tested the Office's reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. Based on our procedures we noted the following:

Master Reporting Package

The Master Reporting Package was required to be submitted by July 15, 2011 and was not submitted until August 15, 2011. Also, the reporting package contained several incorrect answers to questions which led the Office to omit submitting the Capital Assets Reporting Package to the Comptroller General's office for FY2011.

Capital Assets Reporting Package

The Capital Assets Reporting Package was required to be submitted to the Comptroller General by September 20, 2011 and was not submitted at all.

Cash and Investments Reporting Package

The Cash and Investments Reporting Package was required to be submitted to the Comptroller General by July 31, 2011 and was not submitted until August 10, 2011.

Compensated Absences Reporting Package

The Compensated Absences Reporting Package was required to be submitted by July 31, 2011 and was not submitted until August 11, 2011. The reporting package listed 26 full-time equivalent employees earning leave as of June 30, 2011 and there were only 25 employees actually earning leave. Also, the reporting package was not signed by the preparer.

Litigation Reporting Package

The Litigation Reporting Package was required to be submitted by July 31, 2011 and was not submitted until August 11, 2011. Also, the Payments to Private Attorneys Form was not signed by the preparer and approver of the reporting package.

Recommendation

We recommend that the Office develop and implement procedures to ensure that all reporting packages are completed timely and in accordance with the GAAP Reporting Policies and Procedures Manual instructions. All amounts reported on the reporting package should be supported by workpapers and agree to the Office's accounting records.

RECEIPTS

Our testing of 25 deposits disclosed 4 instances in which the Office's deposits were untimely and these instances are described below:

1. Receipts were received by the Office on 10-13-10 and deposited on 10-27-10.
2. Receipts were received by the Office on 10-15-10 and deposited on 10-27-10.
3. Receipt was received by the Office on 10-11-10 and deposited on 10-19-10.
4. Receipts were received by the Office on 11-5-10 and deposited on 11-15-10.

Section 89.1 of the 2010 – 2011 SC Appropriations Act requires that deposits be made at least once each week.

We recommend that the Office implement procedures to ensure that all deposits are made in a timely manner.

DISBURSEMENTS

Our testing of 25 disbursements disclosed that 2 invoices totaling approximately $3,500 were paid to the same vendor for various information technology services. The Office did not have a state contract with the vendor or documentation to support that the services were properly procured. Upon further review, the Office paid approximately $59,000 to this vendor during FY2011.

Section 11-35-1510 of the SC Code of Laws governs the methods of source selection for procurements when state contracts are not awarded by competitive sealed bidding.

We recommend that the Office implement procedures to ensure that all procurements are in compliance with State laws.

PAYROLL

Our testing of 25 payroll disbursements disclosed that 8 employee files were missing supporting documentation for Employee Performance Management System reviews.

Section 19-720.02 of the SC HR Regulations requires that the employee file contain all performance evaluations. Section 19-715.02 of the SC HR Regulations requires establishing and maintaining performance review dates.

We recommend that the Office implement procedures to ensure that employees are evaluated and the evaluation is documented in compliance with State laws.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

DISBURSEMENTS

Our testing of 25 disbursements disclosed that for 1 disbursement, the Office posted $526 expense for angel certificates to office supplies (SCEIS account #5030010000). The expense should have been posted to a

promotional supplies account (SCEIS account #5033030000). The Office did not provide any supporting documentation to justify improper posting.

Good internal controls provide for the posting of disbursements to the correct accounts.

We recommend that the Office ensure that all disbursements are posted to the correct account.

RECEIPTS

Our testing of 25 receipts disclosed that the allocation and posting of a deposit to the revenue accounts was incorrect causing a negative balance at the end of the fiscal year in the sale of services revenue account.

We noted a lack of segregation of duties over the receipts function as the same individual prepares the deposit, takes the deposit to the bank, and posts the transaction to the accounting system.

Good internal controls provide for the posting of receipts to the correct accounts and the retention of required supporting documentation. Also good internal controls require the segregation of duties so no one person has the ability to initiate, process and record a transaction.

We recommend that the Office implement a system to ensure that all receipts are properly posted and that adequate review procedures are properly followed. The Office should also determine if some of the receipt functions could be performed by different personnel.

PAYROLL

Our testing of 25 payroll disbursements disclosed that 11 employee files were missing supporting documentation for salary increases. The Office provided a memorandum detailing salary increases after our inquiries.

We also noted that after the Office began using the new statewide payroll system in 2010, there is a lack of review or approval of total gross payroll per pay period before it is being processed.

Good internal controls provide for the retention of required supporting documentation. Also good internal controls require review and approval procedures before processing total gross payroll per pay period.

We recommend that the Office implement a system to ensure that adequate documentation to support salary adjustments and the amount of pay is properly maintained in employee files. The Office should ensure that the total gross payroll per pay period is reviewed and approved.

JOURNAL ENTRIES

Our testing of 15 journal entries disclosed that 1 journal entry was posted incorrectly based on supporting documentation.

Good internal controls provide for the posting of journal entries to the correct accounts.

We recommend that the Office implement a system to ensure that all journal entries are properly posted.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

Our testing of composite reservoir account reconciliations disclosed the following:

1. The reconciliations were not prepared in a timely manner.
2. No supporting documentation exists for agreeing bank balance of the composite account to the Office's book balance.
3. Necessary adjusting entries were not timely made in the Office's accounting records.

Good internal controls provide for the retention of required supporting documentation and provide for adequate follow-up to ensure that any amounts due are received.

We recommend that the Office implement a system to ensure that all reconciliations are prepared timely and adequate supporting documentation is properly maintained.

SOUTH CAROLINA OFFICE OF THE SECRETARY OF STATE
COLUMBIA, SOUTH CAROLINA

STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2011

During the current engagement, we reviewed the status of corrective action plan taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 2007 dated July 3, 2008. No procedures were performed for the years ended June 30, 2008, June 30, 2009, or June 30, 2010. We determined that the Office has taken adequate corrective action on each of the findings entitled Object Code, Employer Contributions, and Transaction Sequence. We noted continuing deficiencies regarding Payroll Calculations as detailed in this year's Accountant's Comments section of this report.

MANAGEMENT’S RESPONSE

ATTACHMENT A

Section A

Reporting Packages

The deficiencies noted were a result of staffing changes and training issues which have been corrected. Reporting Packages require two separate trained staff members for completion. The office filled the vacant fiscal analyst position at the end of the fiscal year and started training immediately; however, it took a short period of time to acquaint the employee with agency processes and procedures. The other reporting packages were contingent upon completion and review of the master closing package. Once the master review was complete, all packages were submitted immediately. The office completed all requests received from the Comptroller's Office and communicated regularly with the Comptroller's staff regarding the delay. Many were prepared in a condensed timeframe which led to the minor errors listed. To address all deficiencies in the future, including staffing and training, those preparing and reviewing closing packages as well as an alternate are scheduled to attend training on requirements in May and June 2012.

Master and Capital Assets Reporting Package

The incorrect answer referred to by the accountant dealt with Capital Assets. This response was flagged during the Finance Officer's review and was discussed with the fiscal analyst prior to submission. The office did not report any new assets the previous fiscal year and had no asset changes during the year. In addition, all previous assets have a zero book value. The Comptroller's Office obtains capital asset information directly from SCEIS and this closing package requires the office to verify this list of assets which is sent from the Comptroller's Office. Since the office did not receive this list from the Comptroller's Office, nor did it have any additions to this information, it was concluded the package was not required

Compensated Absences

This package included a separated employee that had a leave payout scheduled on the July 1, 2011 payroll. Due to discrepancies in the monetary portion of the payroll report received from SCEIS, the Finance Officer contacted the Comptroller's Office and was instructed to leave the report "as is" since the office was pulling the information directly from SCEIS which was noted on the report. The reviewer signed the report but the preparer did not as she was unavailable and submitting the report was deemed more crucial than waiting for the preparer's signature.

Litigation Reporting Package

The first page of the report was signed by both the preparer and reviewer; however, the payment to private attorneys form attached as page two was not signed. This oversight will be corrected with future submissions.

Receipts

It is the policy of the Secretary of State's office to make all deposits in compliance with state law. The Office has limited resources and with the added workload created by implementation of the SCEIS Finance module staff was unable to process all deposits within the required timeframe. The office was proactive in addressing this issue and in

December 2010 adapted and implemented a new revenue system and deposit procedure to ensure the tracking and completion of all deposits within the required time period. All instances referred to in the comments occurred prior to December 2010.

Disbursements

After extensive review by the office these disbursements were deemed small purchases and were procured using the Small Purchase Procedures as outlined in Section 11-35-1550.

The office maintains that it does have procedures to ensure that all procurements are in compliance with state law.

Payroll

The Office will review its procedures regarding the contents of all paper files to determine any deficiencies and implement necessary changes. We thank the auditor for his observation; however, we do not see support for a violation of state law. Completed performance evaluations are contained in the employee files and all employees have performance review dates established. These dates are a requirement of the HR module of SCEIS and are contained in employee file in the module.

Section B

Disbursements

The office has internal controls to review the posting of all disbursements. This disbursement was reviewed and deemed appropriate by both the office and the auditors at the Comptroller General's Office. This item was not placed in promotional products as it does not promote an agency project. The office will continue to review all disbursements for appropriate placement.

Receipts

A deposit error of $9 was documented on the deposit at the time of deposit, which was a result of an error in the new UCC online filing system two weeks after launching the system that could not be corrected internally. This error did cause a negative balance in one revenue account and a positive balance in another revenue account, which had no overall revenue impact.

The office maintains segregation of duties to the extent possible in a small agency. Deposits are initiated in the divisions by filing clerks. Each division balances the funds and prepares the initial deposit. The finance office consolidates the multiple deposits into one and all revenue is traced back to the initial transaction. Deposits are also verified by the bank and the State Treasurer's Office.

Payroll

Copies of the memo were not placed in employee files as it was a cumulative memo and employees having the right to review their file would have access to information on other employees. A separate memo for each employee will be drafted and placed in the files.

The office began using the statewide payroll system in 2010. At that time no guidance or reports were available and the office developed a procedure of reviewing transactions at the point of entry as a way to verify information similar to how payroll was processed in the past. All entries are entered by one party and reviewed by another and any identified errors are resolved. The SCEIS team later developed some suggested reports and the agency has reviewed those reports and discussed procedures used in other agencies. The agency is implementing relevant reports for review. The agency also monitors payroll through review of variances in routine financial monitoring.

Journal Entries

The posting was correct based on revenue data in the filing system. The information in the filing system was posted incorrectly which caused an overall error. The utilization of journal entries within the revenue system provides internal controls to balance revenues back to the initial filing system. Procedures will be reviewed to determine what changes if any would produce enhanced controls. The office has continued to enhance the revenue reporting system and will continue to do so to ensure that all journal entries are properly posted.

Composite Reservoir Reconciliations

The office has implemented a system to ensure that all reconciliations are prepared timely and adequate supporting documentation is properly maintained.