

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

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 11, 2014

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

We have performed the procedures described below, which were agreed to by management of the South Carolina Office of the Secretary of State (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2013, 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 (\$39,700 – general fund and \$15,700 – earmarked fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over certificates and other documents issued for money. We inquired with agency personnel performing these duties to determine if they understood and followed the described policies.

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 Office'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.
- 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 (\$11,700 – general fund and \$15,000 – 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 Office'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 Office's accounting records. The scope was based on agreed upon materiality levels (\$11,700 – general fund and \$15,000 – 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 Office'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 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 Office's policies and procedures and State regulations.

The individual 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 Office 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.

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by Office for the year ended June 30, 2013, and inspected selected reconciliations of balances in the Office'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 Office's general ledger, agreed 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 Office's accounting records.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in the comment titled Composite Reservoir Reconciliations in the Accountant's Comment's section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages 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 Report on Applying Certain Agreed-Upon Procedures on the Office for the fiscal year ended June 30, 2011, to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the fiscal year ended June 30, 2012.

Our finding as a result of these procedures is presented in the comment titled Composite Reservoir Reconciliations in the Accountant's Comment's 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 and management of the South Carolina Office of the Secretary of State 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 - OTHER WEAKNESS

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 while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

Our testing of composite reservoir account reconciliations disclosed the following:

1. The Office did not perform monthly reconciliations. We determined that it performed only seven reconciliations during the twelve month period.
2. The November 2012 reconciliation contained items from September 2012 that had not been reconciled.

Effective internal controls provide for the timely reconciliation of book and bank balances, as well the recording of any necessary adjustments to the ledger.

We recommend the Office implement policies and/or procedures to ensure that all reconciliations and accompanying adjustments are performed timely.

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 Independent Auditor's Report on the Office for the fiscal year ended June 30, 2011, and dated May 23, 2012. We applied no procedures to the Office's accounting records and internal controls for the fiscal year ended June 30, 2012. We determined that the Office has taken adequate corrective action on each of the findings, except for the comment titled Timeliness of Composite Reservoir Account Reconciliations.

MANAGEMENT'S RESPONSE

MANAGEMENT'S RESPONSE

The Secretary of State's Office has reviewed and acted upon the auditor's recommendations concerning monthly reconciliations for the composite reservoir account. We have implemented the internal controls to ensure that these reconciliations are performed monthly. Additionally, the Secretary of State's Office appreciates the recognition of our efforts to correct the previous findings from the 2011 audit. We are pleased with the results of this current audit.

We thank you for your assistance and advice during the agreed upon procedures engagement.

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