

**SOUTH CAROLINA
STATE ELECTION COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2011

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
RETURN CHECKS ACCOUNT	6
ACCOUNTING FOR SOFTWARE COSTS	6
REPORTING PACKAGES	7
Grants and Contribution Revenues Reporting Package	7
Miscellaneous Revenues Reporting Package	7
Recommendation	8
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 11, 2012

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 the 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, 2011, 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked 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 (\$31,300 – earmarked fund and \$3,800 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Return Checks Account 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 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 major object code 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 (\$26,100 – general fund, \$29,400 – earmarked fund, \$21,400 – restricted fund, and \$3,800 – federal 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, 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 major object code 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 (\$26,100 – general fund and \$29,400 – 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 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.

The individual transactions selected for our test of journal entries were chosen randomly and all appropriation transfers were tested. Our finding as a result of the procedures is presented in Accounting for Software Costs in the Accountant's Comments section of this report.

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 and agency specific 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, 2011, 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 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, 2011, 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.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina State Election Commission
September 11, 2012

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, 2008, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010 and 2009.

We found no exceptions as a result of the procedures.

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.

RETURN CHECKS ACCOUNT

The Commission did not correctly adjust the return checks account (general ledger account 4530010000) at year-end. The Comptroller General's policies and procedures specify that at fiscal year-end, any balance remaining in the return checks account must be cleared out and recorded as an adjustment to the appropriate revenue account. The Commission staff was not aware of the Comptroller General's Office policy.

We recommend that the Commission implement procedures to ensure that the return checks account is adjusted at year end in accordance with Comptroller General's Office policy.

ACCOUNTING FOR SOFTWARE COSTS

During our testing of Commission journal entries it was discovered that costs associated with the development and implementation of software for a large software project were expensed in the fiscal year as management consultant fees. The supporting documentation indicates that the cost meets state's capitalization threshold for software. Commission employees explained that they were not aware of State's policy which requires capitalization of computer software development and implementation costs. We did determine that the Commission properly capitalized hardware associated with this project.

Section 3.8 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.

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

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." Our testing of the Commission's reporting packages disclosed the following exceptions:

Grants and Contribution Revenues Reporting Package

The Commission incorrectly reported that it received no federal funding during the year on the Master Reporting Checklist and therefore did not submit a Grants and Contribution Revenues Reporting Package. Based on our review of the Commission accounting records we determined that the Commission did receive federal funding and it should have submitted the Grants and Contribution Revenues Reporting Package. When agencies do not submit required reporting packages the omission impacts the accuracy of statewide financial reporting. Based on our discussions with Commission personnel we determined that the omission was due to a misinterpretation of the Master Reporting Checklist instructions.

Miscellaneous Revenues Reporting Package

The Commission incorrectly reported the entire accounts receivable balance as both a current and non-current receivable on the Accounts Receivable Summary Form. We were told that the reporting error was the result of an oversight by the preparer. The error was not detected by the reviewer.

Recommendation

We recommend that the Commission develop and implement procedures to ensure that all reporting packages are completed in accordance with Comptroller General's Office Reporting Policies and Procedures Manual instructions. The Commission should also ensure that preparers and reviewers of reporting packages are adequately trained and understand the reporting package instructions.

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, 2008, and dated September 3, 2009. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010 and 2009. We determined that the Commission has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

December 18, 2012

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 State Auditor's Office's performance of agreed-upon procedures to the accounting records of the South Carolina State Election Commission (SEC). The SEC hereby releases the report, along with the agency's responses to the Accountant's Comments. I have also enclosed a current list of the SEC's commission members and their mailing and e-mail addresses. The agency's responses to the Accountant's Comments are as follows:

Return Checks Account

The balance in the return checks account was not cleared out at the end of the fiscal year. We have contacted the Comptroller General's Office (CGO) to determine how the adjustment is processed in SCEIS and we will make the necessary adjustments when the information is received from the CGO. The accounts receivable procedure for the agency will be revised to include the process for making the adjustment at year-end.

Accounting for Software Costs

It was brought to SEC staff's attention during an agreed upon procedures audit of the FY 2010-11 SEC accounting records that costs associated with the development and implementation of software for the Voter Registration and Election Management System (VREMS) must be capitalized. SEC staff was not aware of the requirement. Based on a recommendation by the State Auditor's Office, SEC staff will compile all of the information regarding the development, design, coding, testing, etc. of VREMS and will contact the CGO to receive guidance on determining the costs that will need to be included in the capitalized cost of the system.

It should be noted that while VREMS is currently being used by the SEC and all 46 counties throughout the state, the SEC has not yet received ownership of the system. SEC staff will also confirm with the CGO at which point the system should be considered an SEC capital asset.

COMMISSIONERS

BILLY WAY, JR.
Chairperson

MARK A. BENSON

MARILYN BOWERS

E. ALLEN DAWSON

NICOLE SPAIN WHITE

MARCI ANDINO
Executive Director

2221 Devine Street
P.O. Box 5987
Columbia, SC 29250

803.734.9060
Fax: 803.734.9366
www.scvotes.org

Reporting Packages

Grants and Contribution Revenues Reporting Package

Prior to fiscal year 2010-11, the reporting threshold for a grants and contribution revenues reporting package was \$5,000,000. During fiscal year 2010-11, the only federal funds received by the SEC were pass-through funds which were sent to the counties as reimbursement for improvements to polling places to ensure compliance for persons with disabilities. The amount received and paid to the various counties as a reimbursement was \$157,572. Additionally, \$1,970 was paid to Chernoff Newman to create a video to be used to demonstrate the procedures for using the voting machines for the handicapped community. The total federal funds received and disbursed was \$159,542.

This oversight has been discussed with all employees completing and reviewing the closing package in an attempt to ensure the oversight does not occur in the future.

Miscellaneous Revenues Reporting Package

The SAO found that the entire accounts receivable balance (\$10.00) was reported as both a current and non-current receivable on the Accounts Receivable Summary Form in error. All closing package instructions will be reviewed with staff who are responsible for the miscellaneous revenues reporting package to ensure that the error does not occur in the future.

Please contact Janet Reynolds at jreynolds@elections.sc.gov if you have any questions regarding the responses.

Sincerely,



Marci Andino
Executive Director

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 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.