

**SOUTH CAROLINA
STATE ELECTION COMMISSION
COLUMBIA, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 2013**

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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

October 24, 2014

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, 2013, 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 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, \$3,700 – earmarked fund, \$1,400 – restricted fund, and \$17,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding 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 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 (\$42,600 – general fund, \$28,100 – earmarked fund, \$35,800 – restricted fund, and \$17,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Account Coding, Timely Payment of Invoices, and Vendor Overpayment 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 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 (\$42,600 – general fund and \$28,100 – 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 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 selected all (two) appropriation transfers. Our finding as a result of these procedures is presented in Journal Entry Approval and Documentation 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.

Our findings as a result of these procedures are presented in Account Coding and Personal Property Inventory in the Accountant's Comments section of this report.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 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, 2013, 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
October 24, 2014

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, 2011, to determine if the Agency had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012.

Our finding as a result of these procedures is presented in Reporting Packages 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 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.

ACCOUNT CODING

During our testing of receipt transactions, we noted the following coding errors:

- 1) A reimbursement for copies/scans was coded to Office Supplies (G/L Account 5030010000) instead of Copying Equipment Supplies (G/L Account 5030020000). Commission personnel stated they consider these transactions as reimbursements of office supplies.
- 2) A reimbursement from a county for the printing and mailing of voter registration cards was coded to Data Processing Supplies (G/L Account 5030060000) instead of Printing, Binding, Advertising (G/L Account 502003000) and Postage (G/L Account 5030070000).
- 3) Two reimbursements from counties for the printing of voter registration cards were coded to Data Processing Supplies (G/L Account 5030060000) instead of Printing, Binding, Advertising (G/L Account 502003000).

For 2) and 3) above, Commission personnel stated that since the Department of State Information Technology (DSIT) actually prints and mails the voter registration cards, the expense is coded to Data Processing Supplies since those are the services DSIT provides the agency. Based on our discussion with Commission personnel, we learned that the Commission codes the original payments to DSIT to Data Processing Services (G/L Account 502007000); however, upon review of the Comptroller General's Policies and Procedures, the expenditures and county reimbursements should both be charged to Printing, Binding, Advertising (G/L Account 502003000).

During our cut off test of expenditure transactions we noted a travel reimbursement for an employee's trip to North Carolina was coded to in-state travel (G/L Accounts 50500xxxxx) instead of out of state travel (G/L Accounts 50505xxxxx). Commission personnel stated the transaction was inadvertently coded incorrectly.

In addition, during our review of the Commission's compliance with Section 11-1-45 of the 1976 South Carolina Code of Laws, we noted that an expenditure for catered meals was coded to Legal Settlements (G/L Account 5021040000) instead of Catered Meals (G/L Account 5021530000). The expenditure was improperly coded due to oversight.

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent accounting treatment.

We recommend the Commission strengthen its internal controls over the recording of financial transactions. The Commission should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

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 2013 reporting packages that were incorrectly prepared and/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 tends to cast doubt on the State internal control structure's ability 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. The following describes the errors noted on certain fiscal year 2013 reporting packages:

Grants and Contribution Revenue

During our testing of the Grants and Contribution Revenue Reporting Package, we noted that the Commission did not complete the Grants Receivables and Deferred Revenue Summary Form as required. Commission personnel stated this omission was due to oversight.

Operating Leases

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

- 1) We determined the Commission overstated the amount reported as One Time Rental Payment by \$2,178 due to the misclassification of two leases. Also, the Commission reported \$4,947 as Contingent Rental Payments instead of Required Minimum Lease Payments for Operating Leases. Therefore, Total Required Minimum Lease Payments should have been reported as \$7,125.
- 2) The Commission did not complete the Operating Leases Future Minimum Payment Schedule Form 3.09.1a as required.
- 3) The Commission was not required to complete Part II of the closing package because its operating leases did not include contingent rents.

Commission personnel stated the errors noted above were due to oversight.

Other Payroll Liabilities

During our testing of the Other Payroll Liabilities Reporting Package, we noted certain amounts were incorrectly reported on Part 2 of the Compensated Absences Summary Form. Amounts for Annual Leave, Holiday Compensatory Time, and Overtime Compensatory Time for Funds 10010000 and 31810000 were reported as \$3,290 and \$1,498, respectively. Per our review of the SCEIS compensated absences report, \$451 and \$372 respectively, should have been reported. Commission personnel stated the preparer of the reporting package miscalculated the reported amounts.

Subsequent Events Questionnaire

During our testing of the Subsequent Event Questionnaire Reporting Package, we noted the Commission submitted the reporting package on November 15, 2013 which is after the November 8, 2013 due date.

Commission personnel stated the Subsequent Event Questionnaire was submitted late due to the tremendous amount of litigation that resulted when the Commission was sued following the candidate filing issues in 2012 that continued into 2013. It took longer than estimated to gather the information needed.

Recommendation

We recommend the Commission implement procedures to ensure reporting packages are completed when applicable and in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

PERSONAL PROPERTY INVENTORY

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, states, "The head of each department, agency or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables."

The Commission provided us with an inventory listing; however, this listing was not approved or dated by a responsible official. Therefore we could not determine the Commission's compliance.

We recommend the Commission develop and implement procedures to ensure compliance with Section 10-1-140 of the 1976 Code of Laws.

TIMELY PAYMENT OF INVOICES

During our cut-off test of expenditures, we noted two out of 25 vouchers tested were not submitted to the Comptroller General's Office for payment within 30 work days of the receipt of goods and services. One invoice for attorney fees was paid approximately four months after it was received. According to Commission personnel, the Commission did not realize this invoice had not been paid until it was notified by the vendor. It was then paid immediately. Another invoice for a county reimbursement was paid approximately three months after it was received. Commission personnel stated they did not have all of the documentation necessary from the county in order for the payment to be made on a timely basis.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services.

We recommend the Commission strengthen its procedures to ensure invoices are paid in accordance with State law.

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.

VENDOR OVERPAYMENT

During our testing of disbursement transactions, we noted one instance where the Commission overpaid a vendor by \$31. Based on our review of the invoice, we determined the Commission owed the vendor \$479; however, \$510 was paid.

Commission personnel stated this invoice was not checked for accuracy before being paid.

Effective internal controls require that invoices be reviewed for accuracy to protect against overpayment of expenditure. In addition, the Commission's Disbursement Procedures state the "Accounting Tech checks the invoice for accuracy."

We recommend the Commission strengthen its internal controls to ensure that all invoices are checked for accuracy in order to avoid overpayment.

JOURNAL ENTRY APPROVAL AND DOCUMENTATION

During our test of journal entries, we noted four instances where there was no workflow approval in SCEIS and approval from a Commission employee was not documented. The transactions were all initiated and processed by the SCEIS team on behalf of the Commission. In addition, the Commission could not provide documentation to support or adequately explain fifteen out of twenty-five journal entries. Three of these transactions were all initiated and processed by the SCEIS team on behalf of the Commission.

Commission personnel stated that a former employee was responsible for preparing the journal entries and no current employee could locate the documentation.

Effective internal controls include supporting documentation adequate to support journal entries as well as evidence of approval by a responsible official.

We recommend the Commission implement procedures to ensure that all accounting transactions processed through its accounting system be supported by source documentation and be approved by appropriate Commission personnel.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on 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, 2011, and dated September 11, 2012. We applied no procedures to the Commission's accounting records and internal controls for the fiscal year ended June 30, 2012. We determined that the Commission has taken adequate corrective action on the findings titled Return Checks Account and Accounting for Software Costs. For the finding titled Reporting Packages we determined that the Commission has taken adequate corrective action. However, we noted additional deficiencies during our testwork which will be reported in a similar finding in Section A of the report.

MANAGEMENT'S RESPONSE

December 2, 2014

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 authorizes release of the report. The agency's responses to the Accountant's Comments are as follows:

Account Coding

A reimbursement for copies/scans was incorrectly coded as a reimbursement for office supplies. The State Auditor's Office (SAO) has recommended that the SEC use the code for data processing supplies. The SEC will use the data processing supply code for all reimbursements of copies/scans in the future.

Several documents were noted as exceptions due to the SEC using an object code for data processing supplies instead of printing, binding and advertising. The Department of State Information Technology (DSIT) invoices the State Election Commission (SEC) monthly for hosting the SEC's statewide voter registration system. DSIT now also bills the SEC for printing and mailing voter registration cards for the county boards of voter registration and elections. The SEC in turn bills the counties for those expenses. Invoices from DSIT have historically been paid with a data processing services object code. When the printing of the cards and the postage for the county boards of voter registration and elections were added, the SEC continued to pay the entire invoice with the data processing services object code. The SEC is now separating the expenses on both the invoice to DSIT and on the deposit of the reimbursed funds from the counties.

An out of state travel document was inadvertently entered by the employee as in-state travel. The SEC has changed the process for approving travel documents to include a review of the document by both the person scanning the backup documentation for the travel and by the approver of the travel document to avoid this error from occurring in the future.

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

Document number 3003572100 was noted as an exception for incorrect coding. The correct object code was used on the audit stamp of the invoice but was entered incorrectly in SCEIS. The SEC will review the error with the appropriate accounts payable employees in an attempt to prevent the error from occurring in the future.

Reporting Packages

Grants and Contribution Revenue

The SEC did not complete the Grants Receivables and Deferred Revenue Summary Form. The omission was due to an oversight. All applicable forms will be included in future submissions of the closing package.

Operating Leases

Documentation regarding the correct classifications of the various leases has been made and will be used when preparing future operating leases closing packages.

Other Payroll Liabilities

The SEC's other payroll liabilities closing package included figures for two employees whose leave was not approved until after 6/30/13. One employee is paid from the 10010000 fund and the other is paid from the 31810000 fund. The amount reported was \$3,290 for 10010000 funds and \$1,498 for 31810000 funds. These figures were incorrect due to the fact that the amount reported is the total amount of annual and compensatory leave for the two employees. The amount reported should have been any difference between the amount on the SCEIS report provided by the Comptroller General's Office at year end and the SCEIS report run by SEC staff when the other payroll liabilities package is due.

All closing package instructions will be reviewed with SEC staff responsible for the other payroll liabilities closing package to ensure that the package is completed accurately in the future.

Subsequent Events

The SEC will make every effort to submit both accurate and timely closing packages in the future.

Personal Property Inventory

During the 2013 AUP audit, SEC staff was asked to provide a personal property inventory listing. The SAO stated that they were unable to determine the SEC's compliance with Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, regarding personal property inventory due to the listing was not approved or dated by a responsible official. The SEC followed the same procedures for personal

property inventory as during previous audits and the Agency had not been advised in the past to sign and date the inventory listing. The SEC has reviewed the statute and notes that there is no reference to a requirement for the listing to be signed or dated; however, the SEC will consult with the Division of General Services and will implement procedures to ensure compliance with the Statute.

Timely Payment of Invoices

The SAO states that two out of 25 vouchers tested were not paid timely. One of the vouchers was for attorney's fees. The SEC used outside counsel for approximately 40 complaints filed as a result of improper candidate filings. A Form 1 is required for payment to outside counsel. The delay in payment was due to issues obtaining updated Form 1's. The SEC sent the Form 1 for approval on 3/14/13. The form was not signed and returned to the SEC until 6/25/13 at which time payment was processed.

The other untimely payment was a reimbursement of election expenses for a county board of voter registration and elections office. The SEC did not receive the required backup documentation to process the reimbursement within 30 days of receipt. The SEC will review the current process for reimbursement of election expenses and will adjust the current procedures to ensure that payments are made in accordance with state law.

Vendor Overpayment

The Commission overpaid a vendor by \$31. The total on the invoice was \$31 more than the amounts listed on the invoice. The SEC will ensure that the Agency's new accounts payable clerk understands the importance of ensuring that all documents are checked for accuracy before processing payments.

Journal Entry Approval and Documentation

The SEC will review and revise the current process for approving all journal entries to ensure that the necessary backup documentation is included as an attachment in SCEIS as well as in the SEC's files.

Sincerely,



Marci Andino
Executive Director

4 copies of this document were published at an estimated printing cost of \$1.66 each, and a total printing cost of \$6.64. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.