

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

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

February 4, 2019

The Honorable Mark Hammond, Secretary of State
South Carolina Office of the Secretary of State
1205 Pendleton Street, Suite 525
Columbia, South Carolina 29201

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Office of the Secretary of State (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2018. The Office's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Office. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an 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 Office has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Office of the Secretary of State (E08)****Cash Receipts/Revenues**

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$50,000 and 10% for the General Fund and \$20,000 and 10% for the Earmarked Fund.
2. Randomly select ten cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$20,000 and 10% for the General Fund and \$25,000 and 10% for the Earmarked Fund.
4. Randomly select five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Office procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Office procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Office.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Determine that disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.
5. Haphazardly select ten purchasing card transactions from the Comptroller General's listing of purchasing card transactions for Fiscal Year 2018 to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$20,000 and 10% for the General Fund and \$25,000 and 10% for the Earmarked Fund.
7. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
8. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
9. Select all five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office's policies and procedures, that the employee's last pay check was properly calculated, and that the employee's leave payout was properly calculated in accordance with applicable State law.
10. Randomly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

11. Haphazardly select a total of ten journal entries and transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Reporting Packages

12. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
13. In addition to the procedure above, perform the following:
 - Operating Leases Reporting Package

Determine if amounts agree to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Office prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) Three total haphazardly selected payments for each vendor included in the reporting package line items listed as month to month rentals and other rental charges not classified above and (3) All future rental payments to be received for property leased to others.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Office prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

14. Obtain a listing of Office composite reservoir accounts and confirm with Office management that the listing is complete.
15. Obtain fiscal year monthly reconciliations for the composite reservoir account and for two of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
 - Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.
16. Haphazardly select and inspect three composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
17. Haphazardly select and inspect three composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

18. Select all eleven controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Appropriation Act

19. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
20. Confirm compliance with all three Office-specific State provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.