

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2003

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 5, 2004

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Commission on Indigent Defense
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Commission on Indigent Defense (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2003, 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations and Cash Receipts 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, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations 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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries**

- We inspected selected recorded journal entries to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2003, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

We selected the fiscal year-end reconciliations and randomly selected one other month's reconciliations for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2003.

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

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Commission on Indigent Defense
August 5, 2004

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2003, 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 GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

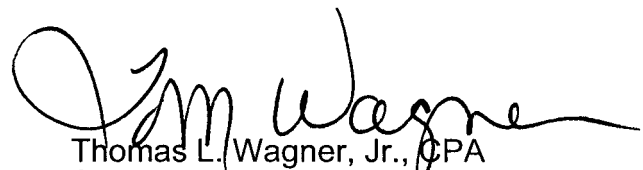
9. **Status of Prior Findings**

We inquired about the status of the deficiencies described in 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, 2002, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in GAAP Closing 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 areas, 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 Commission and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

GAAP CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages in use in preparing the State's financial statements. We determined that the Commission submitted to the Comptroller General fiscal year-end closing packages that included certain errors and/or omissions.

To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states, " Each agency's executive director and finance director are responsible for submitting closing packages forms that are:

- Accurate and completed in accordance with instructions.
- Complete
- Timely

Also, Section 1.7 requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. In addition, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package.

The following outlines the errors noted on certain 2003 closing packages.

Compensated Absences

The Commission had six employees that earned leave in fiscal year 2003. The compensated absences accrual worksheet prepared to support the compensated absences liability contained errors for four of the six employees. The compensated absences liability for two employees was calculated based on a 45 day leave balance instead of the employees'

actual leave balance which was greater. Another employee's leave balance was incorrect because the Commission did not calculate the employee's monthly leave accrual at the correct rate. A fourth employee's leave balance was incorrect due to clerical error. The cumulative effect of the errors resulted in the Commission understating the agency's compensated absences liability by \$2,085.

Errors were also disclosed in the prior year report pertaining to the compensated absences closing package.

Section 3.17 of the GAAP Manual provides instruction for calculating the compensated absences liability. In addition, Section 19-709.02 B.1.c of the State Human Resources Regulations provides guidance for calculating annual leave earnings.

Accounts Payable

The Commission prepared an accounts payable worksheet to support the accounts payable liability balance reported in its GAAP closing package. The worksheet included twenty-five vouchers. To ensure the accuracy and validity of the accounts payable liability we selected five vouchers from the worksheet to test. Based on our test work we determined that the Commission understated its accounts payable liability by \$1,813. The understatement resulted because the preparer did not input the correct voucher amount on the worksheet for two of the vouchers tested.

Errors were also disclosed in the prior year report pertaining to the accounts payable closing package.

Section 3.12 of the GAAP Manual provides detailed instructions for completing the accounts payable closing package.

Capital Assets

The Commission owns one asset that meets the State's capitalization threshold; however, the Commission did not submit a Capital Assets closing package. The same finding was reported in the prior year report.

Section 3.8 through 3.11 of the GAAP Manual provides guidance and detailed instruction on how to complete the capital assets closing package.

Recommendation

We recommend that the Commission implement procedures to ensure that agency personnel responsible for submitting and reviewing GAAP closing packages are familiar with the information contained in the GAAP Closing Package Manual. If personnel need assistance with the preparation and submission of closing packages they should contact the Central State Financial Reporting Division of the Comptroller General's Office.

RECONCILIATIONS

We compared the Commission's books of account (BARS) to certain Comptroller General STARS reports and found the following:

1. The ending cash balance for subfund 4313 and expenditure object code 1301 – Employee Retirement did not agree. The difference in the cash balance and expenditure balance between the two source documents was \$6,815. Attempts were made by finance personnel to correct the difference, however finance personnel gave up after a second attempt to correct the error failed. As a result finance personnel continued to carry the difference as a reconciling item on its monthly reconciliation.

2. Revenue between object codes 4539 – Public Defender Application Fees and 5701 – Court Fines was misstated by \$136,873. Finance personnel inadvertently recorded revenue in the wrong revenue object code. This error went undetected because the agency does not reconcile revenue by STARS subfund and object code as required by the Comptroller General's Policies and Procedures Manual, (STARS manual).

Section 2.1.7.20 C. of the STARS Manual requires all agencies to perform regular monthly reconciliations between the agency's accounting records and STARS to ensure timely detection and correction of errors. The manual also requires that reconciling items be explained and be promptly corrected.

We recommend the Commission ensure that finance personnel comply with STARS reconciling requirements. We also recommend that finance personnel obtain the training necessary to perform their assigned duties. We recommend that finance personnel prepare and process correction of error documents, if necessary, to correct the errors described.

CASH RECEIPTS

Most, if not all, of the cash receipts received by the Commission are received via mail. The Commission's procedures for controlling cash receipts begin with the person handling the mail. The person opening the mail restrictively endorses the check, date stamps the check and prepares a bank deposit slip. Three of the twenty-five cash receipts tested did not document the date of receipt; therefore, we were unable to determine if the cash receipts were deposited in accordance with Section 72.1 of the 2002-03 Appropriation Act.

Section 72.1 states, "...all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services,

and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week...”

We recommend the Commission ensure that personnel are familiar with its cash receipting procedures and adhere to them. We also recommend that personnel independent of the receipting process periodically review cash receipt support documentation to ensure that the agency’s procedures are being followed.

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, 2002, and dated July 31, 2003. We determined that the Commission has taken adequate corrective action on each of the findings, except we have repeated the finding GAAP Closing Packages.

MANAGEMENT'S RESPONSE



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September 29, 2004

Thomas L. Wagner, Jr., CPA
State Auditors Office
1401 Main Street, Suite 1200
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Re: Preliminary Draft of Audit Report for FY 2003

Dear Mr. Wagner:

At the request of my Executive Director, I am responding to your letter of August 27, 2004. This will acknowledge that our review of the report has been completed and we have provided our responses and comments to the findings as follows:

GAAP Closing Packages: The Commission has retained the services of an accounting firm to review all closing packages prior to submission to the Comptroller General's Office. These comments should not occur again.

Reconciliations:

1. Budget cuts required a transfer of funds to cover a shortfall in employer contributions. Agency personnel contacted BARS and requested assistance in posting this transaction, because the BARS program would not allow the entry to post to the minor object code, using this sub fund. They were unsuccessful in obtaining the assistance needed to properly enter this transaction on BARS and indicated this on the back-up documentation which was provided during the audit engagement. Funds were transferred properly, entered correctly on the Journal Voucher and posted correctly with the Comptroller General's Office. This was an exceptional situation that should not occur in the future.
2. Agency has implemented procedures to assure that all STARS reports are reconciled in compliance with Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual.

Cash Receipts: Three checks were not date stamped during the course of the fiscal year; however, additional documentation shows that from the date the check was issued until it was deposited by OID was never longer than four days, which fulfills the requirements of Section 72.1 of the 2002-03 Appropriations Act. This documentation was provided during the audit engagement.

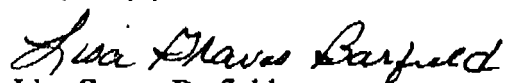
Thomas L. Wagner, Jr. CPA
State Auditor's Office
Page Two
September 29, 2004

The agency had no misappropriation or misuse of funds during this or any other audit and based on the results of our review, we believe systems are in place to ensure these oversights do not occur in the future and that agency personnel are trained and in compliance with all state regulations.

You are authorized to release the final version of this report, along with our comments and responses. I am enclosing a list of the names, addresses and e-mail addresses of our present Commissioners as you requested.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



Lisa Graves Barfield
Admin Manager/Assistant Director

Enclosure

5 copies of this document were published at an estimated printing cost of \$1.54 each, and a total printing cost of \$7.70. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.