
South Carolina Department of Public Safety

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon
Procedures for the year ended June 30, 2007

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

February 4, 2008

The Honorable Mark Sanford, Governor
and
Mr. James K. Schweitzer, Director
South Carolina Department of Public Safety
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Public Safety for the fiscal year ended June 30, 2007, was issued by Brown CPA, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

Contents

	<u>Page</u>
Independent Accountant’s Report on Applying Agreed-Upon Procedures.....	1-4
Accountant’s Comments	
Section A – Violation of State Laws, Rules or Regulations	5
Section B – Other Weaknesses	6
Section C – Status of Prior Findings.....	7
Management’s Response	Attachment A

BROWN CPA, LLC

Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of State Auditor and management of South Carolina Department of Public Safety (the "Department"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2007, in the areas addressed. The Department 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 Department'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 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 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 general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$21,000 – general fund, \$220,000 – earmarked fund, \$36,000 – restricted fund, and \$300,000 – federal fund and ± 10 percent.
- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.

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

P.O. Box 3288 | Irmo, SC 29063 | 803-315-3029 | www.browncpallc.com

MEMBER:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
SOUTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
QuickBooks ProAdvisor® Program



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 Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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 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 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 Department's accounting records. The scope was based on agreed upon materiality levels \$310,000 – general fund, \$220,000 – earmarked fund, \$31,000 – restricted fund, and \$130,000 – federal fund and ± 10 percent.

The individual transactions selected were chosen systematically. 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 Department's policies and procedures and State regulations.
- 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 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 Department'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 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 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 Department's accounting records. The scope was based on agreed upon materiality levels \$310,000 – general fund, \$220,000 – earmarked fund, \$31,000 – restricted fund, and \$130,000 – federal 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 ± 15 percent to ensure that payroll expenditures were classified properly in the Department's accounting records. The individual transactions selected were chosen systematically. Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, 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 Department'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. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the Department 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 selected entries were processed in accordance with the Department's policies and procedures and State regulations.

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 Department for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 Department'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 Department's accounting records and/or in STARS.

The reconciliations selected were chosen systematically. We found no exceptions as a result of the procedures.

7. Appropriation Act

- We inspected documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general and Department specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2007 prepared by the Department 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Department 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.

10. Status of Prior Findings

- We inquired about the status of the finding reported in the Accountant's Comments section from the Department's previous agreed-upon procedures report for the fiscal year ended June 30, 2006, to determine if the Department had taken adequate corrective action.

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, the South Carolina Office of the State Auditor, and the Director and management of the Department of Public Safety and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South
December 11, 2007

ACCOUNTANT'S COMMENTS

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 Department require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

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

CLOSING PACKAGE REPORTING OF COMMITMENTS

Section 59.2 of the 2007 State Appropriations Act specifies that the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with Generally Accepted Accounting Principles (“GAAP”). Section 3.16 of the Office of the Comptroller General GAAP Closing Procedures Manual states that agencies should report “commitments for which contracts were signed or promises were made on or before June 30 of the current fiscal year and the unperformed amounts of all commitments for the agency at June 30 totaled more than \$2 million”. The South Carolina Department of Public Safety has numerous grants with entities outside of state government which were not reported as provided by the instructions of the Comptroller General.

We recommend that the Department develop and implement procedures to ensure that grant commitments are reported as instructed by the Office of the Comptroller General.

CLOSING PACKAGE REPORTING OF CAPITAL ASSETS

Section 59.2 of the 2007 State Appropriations Act specifies that the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with Generally Accepted Accounting Principles (“GAAP”). Section 3.9 of the Office of the Comptroller General GAAP Closing Procedures Manual states that agencies should report assets whose cost is in excess of the defined capitalization thresholds including those which have been acquired through the use of federal funds. During the year ended June 30, 2007 the Department made certain land improvements to a firing range with funds provided by the FBI. These improvements were not reported as an addition on the capital assets summary form as required by the closing package manual instructions.

We recommend that the Department develop and implement procedures to ensure that capital assets are reported as instructed by the Office of the Comptroller General.

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.

DISCREPANCIE IN EMPLOYEE FINAL PAY CALCULATION

Our testing of employee terminations during the year disclosed a discrepancy in the final pay calculation for one of the nine employees tested. We determined the final pay calculation for one employee was understated \$148. Upon notification of this underpayment the Department corrected this oversight as part of the December 1, 2007 payroll.

We recommend that the Department develop and implement procedures to ensure that the final pay calculation of terminating employees accurately reflect the obligations of the Department.

SECTION C – 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 Accountant's Report on Applying Agreed-Upon Procedures at the Department of Public Safety for the fiscal year ended June 30, 2006, and dated October 30, 2006. The following is the status of each prior year comment.

Prior Year Comment

Our testing of twenty five receipts disclosed that the Department did not timely deposit the receipts in one instance. The funds were received by the Department on November 23, 2005 and were not deposited until December 7, 2005. The funds were not transferred to the revenue accounting section of the Department until December 1, 2005.

Our testing of new hires during the year disclosed discrepancies in the starting dates for three of the five employees tested. In all three instances, the employees were added to the payroll two days prior to the start date shown in their employment letter. The Department did not include the time that they spent in an orientation program for which they are paid in the employment letter.

Our testing of 25 payroll transactions disclosed 4 instances where the documentation in the employee files documenting which account the payroll costs for the employees were to be charged by funding source in the general ledger did not agree with the actual distribution of the payroll charges. This finding was also cited in the prior year's report on applying agreed-upon procedures.

The Department included two vouchers totaling approximately \$31,400 in the accounts payable closing package for goods or services received after June 30, 2006.

Our review of the operating lease closing package disclosed that the lease renewal period for one lease contained a typographical error so that year one of the renewal period covered a twenty-four month period instead of a twelve month period causing the future minimum lease payments to be overstated by \$26,772.

Our review of the litigation closing package disclosed that the Department did not submit the package by the July 31st deadline established by the Comptroller General. The package was prepared on August 2, 2006 and reviewed on August 3, 2006. It was received by the Comptroller General's office on August 3, 2006. In addition, the Department could not locate a reviewer checklist.

Our review of the detail listing supporting the inventory closing package disclosed that the inventory was understated by approximately \$419,000 due to an error in the formula on the excel spreadsheet.

Our review of the compensated absence closing package disclosed that the number of full-time equivalent personnel was incorrect. The Department reported the number of individuals with balances as of June 30, 2006 and the report did not take into account personnel that worked less than full-time.

Status

Comment not repeated in the current year.

ATTACHMENT A

Closing Package Reporting of Commitments

At the present time, we are deferring to the Comptroller General's Office on how to handle this situation. We met with the CG's office to discuss this situation, and intend to follow their guidance. They are currently reviewing this issue, and will inform us when they have reached a decision.

Our agency's position on reporting commitments is as follows:

Section 3.16, page 4 of the Office of the Comptroller General's GAAP Closing Procedures Manual defines a Miscellaneous Commitment as arising "from contracts and other irrevocable promises to contribute money or provide goods and services to a party outside State government." The guidance in this section goes on to list an example of a commitment as "where an agency has committed in writing to provide grant monies to a county government to fund certain not-yet-constructed infrastructure assets."

The grants issued by the Department of Public Safety are not irrevocable promises; they can be cancelled for a variety of reasons, and have been in the past. Also, the majority of the grants issued by the department are pass-throughs of federal money, and do not represent a commitment of state funds. They are also not for infrastructure assets. Considering these issues, we do not believe our grants match the description of a commitment listed in the closing package instructions, and therefore do not believe it would be appropriate to report the amount of grants outstanding as a commitment.

Closing Package Reporting of Capital Assets

We concur with the finding on the closing packages for Capital Assets. We will attempt to put in place new procedures between the General Accounting area and the Capital Improvement and Compliance area with regards to the issuance of A-1's. We will attempt to assist in the writing of A-1 documents so that they will more closely describe the proposed capital projects, so a more informed decision is made at the Comptroller General's Office.

Discrepancy in Employee Final Pay Calculation

We concur with the finding. We will meet with the employees in the effected areas and review our procedures and develop new procedures if necessary to ensure this error does not occur in the future.