

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 2, 2007

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, 2006, 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 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 earmarked and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$13,300 – earmarked fund and \$62,700 – restricted 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. We found no exceptions as a result of the procedures.

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 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 and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$42,300 – general fund, \$13,400 – earmarked fund, and \$53,600 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Code and Supporting Documentation for Payments to Attorneys 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 processed in accordance with the agency'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 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 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 payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$42,300 – general fund, \$13,400 – earmarked fund, and \$53,600 – 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 ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries and all 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 agency's policies and procedures and State regulations.

The individual journal entry 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 selected entries were processed in accordance with the agency'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 Commission for the year ended June 30, 2006, 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 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 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.

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

7. **Appropriation Act**

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

Our finding as a result of these procedures is presented in Object Code in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 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 Closing Packages in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the finding 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, 2005, to determine if Agency had taken corrective action.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Commission on Indigent Defense
October 2, 2007

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 Commission on Indigent Defense and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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.

CLOSING PACKAGES

During our review of the Commission's closing packages we noted several exceptions as described below:

Accounts Payable Closing Package

The Commission's Accounts Payable Closing Package improperly included vouchers totaling \$86,652 that were paid in fiscal month (FM) 13 of fiscal year 2006. The Commission failed to report in the closing package an expenditure for goods or services received prior to June 30, 2006 which totaled \$821,303.

Section 3.12 of the Comptroller General's Office GAAP Closing Procedures Manual, states, "The Comptroller General's Office automatically translates STARS FM 12 transactions posted after June 30 and FM 13 transactions to Accounts Payable because it assumes that the related goods or services were received on or before June 30. Accordingly, agencies should not report these transactions on closing package forms." In addition, Section 3.12 of the GAAP Closing Procedures Manual specifies, "An amount is an Account Payable at June 30 only if your agency: Receives the related goods or services on or before June 30 and pays (or plans to pay) the vendor after June 30."

We recommend that the Commission follow procedures outlined in the GAAP Closing Package manual to ensure that the Accounts Payable Closing Package is complete and accurate.

Compensated Absences Closing Package

During our review of the Compensated Absences Closing Package we were unable to verify the hourly rate reported for one employee. The Commission calculated the leave liability for this employee using an hourly rate of \$12.76. We determined, based on the procedures performed, that the Commission should have used an hourly rate of \$12.40. This error resulted in an overstatement in the compensated absence liability balance of \$51.

In addition, we noted that the Commission's Division on Indigent Defense converted its employee work week from a 37.5 hour work week to a 40 hour work week during the fiscal year. The Commission did not adjust the leave balances for those employees to reflect a 40 hour week; therefore, the compensated absences liability recorded on the closing package for those employees was understated.

The Office of Human Resources requires agencies to convert leave balances when a change in work schedule occurs. The agency must determine the number of leave days accrued based on the hours earned under the old work schedule and convert those days based on the hours earned using the new work schedule. Additionally, Section 1.7 of the GAAP Closing Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, Complete, and Timely."

We recommend that the Commission follow the procedures outlined by the Office of Human Resources and the GAAP Closing Package Manual to ensure that the Compensated Absences Closing Package is complete and accurate.

Operating Lease Closing Package

We determined that the Commission did not submit an operating lease closing package on an operating lease with future minimum payments in excess of \$200,000. Section 3.19 of the GAAP Closing Procedures Manual requires agencies to submit an operating lease closing package if the total noncancelable operating lease obligation at June 30 for all future years is more than \$200,000. The GAAP Manual specifies that leases in effect at June 30 are those that are signed on or before June 30 regardless of whether the lease payments begin before June 30.

We recommend the Commission follow the guidelines set in the Comptroller General's Closing Package Instructions to ensure that all applicable Closing Packages are accurately completed and submitted timely.

PAYROLL

Approval of Salary Changes

The Commission could not provide documentation that the Executive Director had approved the performance increases of four employees (i.e., written justification for performance increases).

Commission procedures require approval of all salary changes by the Executive Director. Also, Section 19-705.04 of the South Carolina Human Resource regulations requires that the employing agency maintain written justification for awarding in-band salary increases.

We recommend that the Commission ensure proper approval is documented prior to processing salary increases. We also recommend that the Commission maintain written justification and approval documents for all salary changes.

Effective Date of Salary Changes

We were unable to trace and agree the gross pay from the payroll warrant register to the Office of Human Resources (OHR) Employee Profile for five employees. The Comptroller General's Form P-10 documented an effective date of September 1, 2005 for four employees, but the Employee Profile reported an effective date of September 11, 2006 for three of the employees and September 4, 2006 for the other employee. We also noted that an increase effective July 1, 2005 for the fifth employee was not reflected on the OHR Employee Profile. Commission personnel provided a copy of a letter dated June 30, 2006 that was sent to OHR to update the salary changes, but the letter was not submitted to OHR in a timely manner.

Section 19-701.05 of the South Carolina Human Resource Regulations states, "As required by 8-11-230 of the South Carolina code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We recommend that the Commission implement procedures to ensure that salary changes are reported to the Office of Human Resources timely and that the changes are accurately reflected on the Employee Profile history.

OBJECT CODE

During our review of the Appropriation Act general and agency specific provisos we noted that the Commission incorrectly charged consulting services provided for their online voucher payment system to object code 0219 – Auditing, Accounting, and Finance Services. The STARS manual defines object code 0219 as “Expenditures for services rendered by individuals or organizations qualified to perform such services as keeping and reporting of financial information.” The services should have been charged to object code 0204 – Data Processing Services.

We recommend that the Commission adhere to the STARS policies and procedures manual when evaluating the classification of object codes.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SUPPORTING DOCUMENTATION FOR PAYMENTS TO ATTORNEYS

We noted that two of the 25 vouchers tested (8%) lacked supporting documentation as required by Commission procedures. One of the vouchers tested did not include the Trial Judge's signature on the "Defense of Indigent Voucher" form. We also tested a voucher that did not include the attorney appointment notice form.

Commission procedures require attorneys to submit a "Defense of Indigent Voucher" form along with appropriate supporting documentation in order to be reimbursed. The Commission also maintains a deficiency report that outlines the information needed from the attorneys to process the request for payment.

We recommend that the Commission adhere to their policies and procedures regarding the processing of payments to attorneys.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2005, and dated October 6, 2006. We determined that the Commission has taken adequate corrective action on the finding entitled Transfers of Personal Services Expenditures.



SCCID

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T. Patton Adams, Executive Director
Lisa A. Graves, Assistant Director
Hugh Ryan, Deputy Director/General Counsel

February 7, 2008

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Re: Preliminary Draft of Audit Report Fiscal Year Ending June 30, 2006

Dear Mr. Gilbert:

At the request of Mr. Adams, I am writing this letter to acknowledge receipt of the above document and inform you that our review of your report is completed.

We appreciate the professional and courteous attitude of your staff and their assistance as we continue to develop and improve our financial management policies and practices.

We will take corrective actions regarding all findings as follows:

Closing Packages: All closing packages will be independently reviewed for accuracy prior to submission to the Comptroller General's Office and all required packages will be submitted in a timely manner.

Accounts Payable Closing Packages:

The vouchers processed for a total of \$86,652 we keyed to post in FM 1. The Comptroller General's Office posted in FM 13 instead which excluded them from inclusion in the closing package.

The expenditure for \$821,303 was for a Legal Aid distribution. The Voucher was processed on 7/1/06. There was an error in the transaction and a check cancellation was issued to the Comptroller General on 7/13/06. The check cancellation was not processed by the Comptroller General's office until 7/18/06, after the FM 13 cut off date. This resulted in the corrected voucher carrying forward into FY 08. This transaction was expected to post in FM 13 and would not have been reportable.

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
Office of the State Auditor
February 7, 2008
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Transactions will be more carefully reviewed and verified before reporting in GAAP Closing Packages.

Payroll: Paper, rather than electronic, records will be maintained for all transactions to ensure documentation is available for review. All requests to HRIS will be documented in writing and records will be reviewed to ensure that the Office of Human Resources has properly recorded changes in the HRIS system.

Compensated Absences Closing Package: The data compiled to calculate this closing package is derived from an Excel spreadsheet. There was a calculation error in one cell of the documents, which resulted in this mistake. All entries will be verified manually before completing future closing packages.

Leave balances were converted beginning on the first day of the month following the change in work schedule. Ending balances from the prior month should have been converted and carried forward. This did not affect the accrued hourly totals.

Operating Lease Closing Package: Since moving our files several times over the course of the past two years, I have not been able to locate a copy of this document. Attempts to obtain a copy from the Comptroller General's Office were not successful.

Approval of Salary Changes: The payroll documents (P-10) for Lisa Graves were signed and dated by the Executive Director. Payroll documents for other employees were signed and dated by Lisa Graves in her capacity as Administrative Manager. Forms for written justification were kept electronically, and have no signature. When printing the documents the computer defaulted to the current date, rather than the date they were created. The Executive Director approved all salary increases. Signed, paper copies of all payroll transactions and authorizations will be kept on file in the future.

Effective Date of Salary Changes: The changes were not recorded by OHR in a timely manner. Inquiries were made to Pam Benjamin, the agency HR Analyst and documents were sent to OHR again. Finally, ten months later, after the letter of June 30, 2006, the changes were keyed into HRIS. We are in the process of implementing the electronic HRIS system so that the agency can key entries into the system and will not have to send the documents to OHR for them to enter.

Object Code: This voucher was payment to Schmoyer & Co. The invoice should have been marked that the services were for consulting, not accounting. In processing the payment, the STARS code for accounting services, rather than consulting services, was entered. We will make every effort to assure that invoices are more carefully reviewed and coded properly.

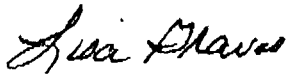
*Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
Office of the State Auditor
February 7, 2008
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Supporting Documentation: Every effort is made to ensure that supporting documentation is properly attached to the vouchers. Occasionally, a file copy may be misplaced, filed incorrectly or attached to the wrong voucher. We will make every effort to correct avoid these instances.

You are authorized to release the final version of this report.

If you have questions, or require additional information, please contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lisa Graves". The signature is fluid and cursive, with the first name "Lisa" and last name "Graves" clearly distinguishable.

Lisa Graves
Administrative Manager

4 copies of this document were published at an estimated printing cost of \$1.63 each, and a total printing cost of \$6.53. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.