

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE**

COLUMBIA, SOUTH CAROLINA

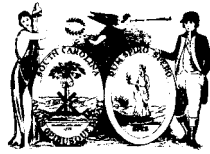
STATE AUDITOR'S REPORT

JUNE 30, 2001

CONTENTS

| | <u>PAGE</u> |
|--|--------------------|
| I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES | 1 |
| II. ACCOUNTANT'S COMMENTS | |
| SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS | 4 |
| ACCOUNTS PAYABLE CLOSING PACKAGE | 5 |
| ACCOUNTING SYSTEM | |
| Reconciliations | 6 |
| Journal Entries | 6 |
| RECEIPTS | 7 |
| SECTION B - STATUS OF PRIOR FINDINGS | 8 |
| MANAGEMENT'S RESPONSE | 9 |

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 27, 2002

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 South Carolina Commission on Indigent Defense, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2001, 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. Our finding as a result of these procedures is presented in Receipts in the Accountant's Comments section of this report.

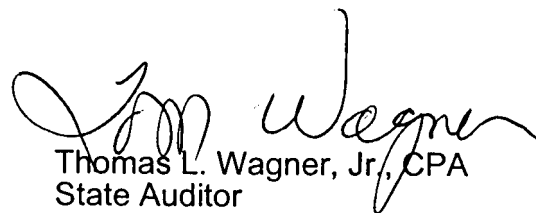
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested payroll transactions for the new employee to determine if internal controls over this transaction was adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; and comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested all recorded journal entries and appropriation transfers 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. Our finding as a result of these procedures is presented in Accounting System in the Accountant's Comments section of this report.
5. We tested 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 tested transactions were adequate. The transactions selected for testing were chosen randomly. 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
August 27, 2002

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2001, and tested 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. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Accounting System in the Accountant's Comments section of this report.
7. We tested 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 2001. We found no exceptions as a result of the procedures.
8. We reviewed 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, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Accounts Payable Closing Package and Accounting System in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Commission and submitted to the State Comptroller General. We reviewed 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 finding as a result of these procedures is presented in Accounts Payable Closing Package 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.

ACCOUNTS PAYABLE CLOSING PACKAGE

The Commission is required to submit GAAP (generally accepted accounting principles) closing packages to the Comptroller General's Office at the end of each fiscal year. The requirements and instructions for completing the closing packages are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting . . . closing package forms . . . that are: Accurate and completed in accordance with instructions." The Commission submitted inaccurate closing packages for accounts payable for fiscal years 1998, 1999, 2000, and 2001.

The Commission did not report any accounts payable for all fiscal years noted above. Accounts payables should have been reported in all of those years. Our testwork for the current year revealed that the Commission should have reported \$383,522.65 in accounts payable.

The Commission made an attempt to process two vouchers as fiscal year 2001 but errors were noted and the vouchers were processed as fiscal year 2002. Since the vouchers were for services received in fiscal year 2001 the payment for the services should have been made from 2001 funds. Because this did not happen the vouchers should have been included on the accounts payable closing package.

We recommend the Commission carefully review and follow applicable GAAP Manual instructions for completing closing packages. The Commission should ensure that employees who complete and independently review the closing packages are properly trained in and knowledgeable of GAAP and GAAP Manual guidance and instructions for preparations of closing packages.

ACCOUNTING SYSTEM

Reconciliations

We obtained the Commission's monthly reconciliations between balances in its internal accounting records and those in the State's accounting system (STARS) as reflected on Comptroller General reports. We noted the Commission did not reconcile its cash balances nor did it maintain monthly revenue reconciliations.

For timely detection and correction of errors, Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual), require monthly reconciliations to be timely prepared, adequately documented, and independently reviewed. Monthly reconciliations should be performed for revenues, expenditures, and ending cash balances. Also, all reconciling items are to be explained, and all errors detected through the reconciliation process to be promptly corrected in the Commission's internal accounting records and/or STARS, as appropriate.

We recommend the Commission ensure that reconciliations are performed for cash, and revenue. These reconciliations should be properly reviewed by someone other than the preparer.

Journal Entries

For the Commission's internal accounting system, no source documents are created for adjustments to their books. During the Commission's reconciliation process, if an error is noted on their books a change is made to accounting system. No journal entry or memo is prepared. No one independently reviews and approves entries to the Commission's accounting system. We have described similar deficiencies regarding the Commission's accounting system and reconciliation process in our prior reports on the Commission's controls and records.

The Commission does not have proper internal controls surrounding their accounting system. Effective internal controls would require all entries posted to the accounting system to be properly documented and supported as to the source of the entry and all entries would be properly reviewed and approved prior to input.

We recommend the Commission ensure that all entries posted to the accounting system be properly supported and that all entries be independently reviewed and approved. We recommend the Commission strengthen controls surrounding their accounting system.

RECEIPTS

We reviewed the Commission's cash receipts and were unable to determine the timeliness of 9 of the 12 deposits selected for testing. Section 72.1 of the 2001 Appropriation Act states, "... all general state revenues ... and all institutional and departmental revenues of collections ... must be remitted to the State Treasurer at least once each week, when practical ..." Sound business practices require necessary supporting documentation to accompany each transaction.

We recommend the Commission implement procedures to ensure the timeliness of deposits. The Commission should also keep an accurate log as well as maintain the necessary supporting documentation to show when funds are received.

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, 2000, and dated July 23, 2001. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated Accounts Payable Closing Package, Accounting System, and Receipts.

MANAGEMENT'S RESPONSE



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January 14, 2003

Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

RE: Preliminary Draft of Audit Report covering Fiscal Year 2000-2001

Dear Mr. Wagner:

This letter will acknowledge receipt of the above document on January 10, 2003, and will acknowledge that our review of the report, as amended, has been completed. You are authorized to release the final version of this report. I am enclosing a listing of the names and addresses of our present Commissioners as you requested.

I appreciate your help and the help of Ms. Moss in eliminating some issues at the exit interview for this year's audit. I believe that our implementation of the BARS accounting system has been instrumental in reducing the number of potential exceptions to the 2000-2001 review even though it was only in place part of that year.

Of the specific items listed in this report, I respond to the following:

Accounts Payable Closing Package (Page 5):

Since 1998, the Agency has been tasked with distributing funds to the State's Legal Aid programs. These disbursements are made two times a year on December 31 and June 30. Because all of the information on revenue for this program is not received until after June 30, the actual disbursement has fallen in the next fiscal year. Although payments are on a monthly basis, the same problem is present in June for Public Defender payments made under Proviso 35.1. Unfortunately, while these vouchers are submitted during Fiscal Month 13, they are not being processed during that accounting period but rather are denoted as being FM 01 of the next year vouchers. These vouchers had not been carried as "Accounts Payable" because they had been submitted during FM 13.

This is similar to what happened in the two vouchers cited as having been paid in 2002. They were submitted in FM 13 but were not processed until the following FM 01. We received verbal confirmation from the Comptroller General's Office that this was the case, but were unsuccessful in getting a written acknowledgment.

We will attempt to note these type situations as being Accounts Payable in the future.

Accounting System (Page 6):

This Agency began using the BARS (Basic Agency Reporting System) system several months into the fiscal year being audited. We believe that some of these issues will be resolved with a full year's implementation of this system.

Reconciliations (Page 6):

It should be noted that the Agency is bound to use the revenue information provided it by the Comptroller General. We have no way to independently verify those figures. Additionally, those figures contain amounts which are estimated. Using those figures does not reflect the actual amounts of money in those funds which receive their input from "Other" sources. This requires us to maintain another set of records to keep the Agency informed as to how much money is actually in the particular Fund at a particular time.

Actual reconciliations were being reviewed during this time frame but all copies were not dated or signed indicating that this had been done. We will make every effort to do so in the future.

Journal Entries (Page 6):

Source documents are now being created since the implementation of the BARS system. Additionally, the Agency now has internal controls to properly document and support entries and provide a source for review.

Receipts (Page 7):

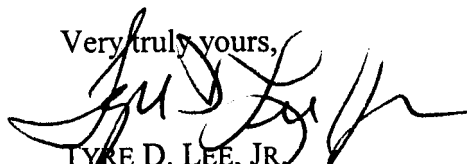
This Agency does not receive a large amount of cash from outside sources in its everyday operations. What is received is generally refunds of unused money from sums advanced to appointed counsel per court order and occasionally sums collected in accordance with law by local indigency screeners and sent to us rather than the State Treasurer. The procedure employed in the past was to log in each check when it was received. The deposit receipt was maintained in the file as proof of deposit. In the future, the Agency will also retain the envelope in which the check arrived or other documentation evidencing when it was received and will "date stamp" this evidence.

As I stated above, I am including a listing of the present Commissioners with their mailing addresses and a 3.5 inch disk with an electronic version of this letter.

If you have any questions, please feel free to contact me.

With best regards, I remain

Very truly yours,



TYRE D. LEE, JR.
Executive Director

TDL/cp
ENCLOSURE:
List of Commissioners

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