SOUTH CAROLINA
DEPARTMENT OF PUBLIC SAFETY

COLUMBIA, SOUTH CAROLINA

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JUNE 30, 2005

State of South Carolina

Office of the State Auditor

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November 29, 2005

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, 2005, was issued by Rogers & Laban, P.A., 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,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COLUMBIA, SOUTH CAROLINA

TABLE OF CONTENTS
JUNE 30, 2005

	Page
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1 - 4
ACCOUNTANT'S COMMENTS	5 - 7
MANAGEMENT'S RESPONSE	Attachment A

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,
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 the State Auditor and the management of the 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, 2005, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the 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 Department'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 with 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 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 Department; 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.

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- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. 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 internal controls over the tested payroll transactions were adequate to detect errors and/or irregularities.
   - We inspected selected payroll vouchers to determine that 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 internal controls over these transactions were adequate to detect errors and/or irregularities.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
   - We compared current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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. Our findings as a result of these procedures are 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, 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 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 the internal accounting 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 Department for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Departments 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 Department's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

   The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented 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 Department'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 2005.

   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, 2003, 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; 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 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, 2005 prepared by the Department and submitted to the State Auditor. We inspected it to determine that is was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and, if they agreed with the supporting workpapers and accounting records.

   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 areas, accounts, or items. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

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

Rogers & Laban, PA

November 14, 2005

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COLUMBIA, SOUTH CAROLINA

ACCOUNTANT'S COMMENTS
JUNE 30, 2005

ADDITIONAL DOCUMENTATION NEEDED ON RECEIPTS

Our testing of receipts disclosed that the Department did not maintain adequate documentation indicating the amounts of the receipts from third parties. These receipts were primarily related to request for information under the Freedom of Information act.

The Department's Policy Manual requires that personnel maintain receipt documentation for cash received.

We recommend that the Department ensure that adequate documentation is maintained to support the amounts of cash received and deposited.

RECEIPTS NOT DEPOSITED TIMELY

We determined that four of the twenty-five deposits tested contained receipts that were not deposited in a timely manner. Some receipts were deposited more than a month after they were received.

Proviso 61.1 of the 2004-05 Appropriations Act requires the Department to deposit receipts at least once each week.

We recommend that the Department implement procedures to ensure that all funds received are deposited in a timely manner.

RECEIPT IMPROPERLY CODED

Our testing disclosed one receipt that was incorrectly coded as a refund of expenditure instead of as a interdepartmental transfer refund of expenditures. There were numerous line items on this receipt, all of which should have been coded to interdepartmental transfer refund of expenditures. Only one of the line items was coded to the incorrect transaction code.

Good internal controls require that systems be in place to ensure that all transactions are coded correctly.

We recommend that the Department implement procedures to ensure that all transactions are coded correctly.

REQUIRED I-9 FORMS NOT IN FILE

Our procedures disclosed that the required Employment Eligibility Verification form (I-9) was not present in 10 of the 25 payroll transactions tested.

The Department is required to have the I-9 form on any employee hired after November 7, 1986.

We recommend that the Department ensure that all required forms are obtained before new personnel are added to the payroll. Consideration should also be given to obtaining the required I-9 forms on any employee hired after November 7, 1986.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COLUMBIA, SOUTH CAROLINA

ACCOUNTANT'S COMMENTS
JUNE 30, 2005

EMPLOYEE CHARGES NOT SUPPORTED BY EMPLOYEE PROFILES

Our testing of 25 payroll transactions disclosed that the employee profiles documenting where the payroll costs for the employees were to be charged by funding source in the general ledger for 4 employees did not agree with the actual distribution of the payroll charges. The employee profile could not be located for another employee.

State Human Resources regulations require the Department to maintain records supporting the distribution of employee charges between funding sources.

We recommend that the Department ensure that employee profiles are maintained that support the allocation of charges in the general ledger.

RECONCILIATIONS NOT PREPARED ON TWO FUNDS

Our review of the Department's November 2004 reconciliation of revenues and expenses per their general ledger to the Comptroller General's records disclosed that the Department did not include two funds on the reconciliation.

The Comptroller General's STARS Policies and Procedures Manual requires agencies to perform monthly reconciliations between the Comptroller General's CSA 467CM report and the agency's records.

We recommend that the Department ensure that all funds are reconciled on a monthly basis as required.

CLOSING PACKAGES DEFICIENCIES

Accounts Payable:

The Department included numerous vouchers less than $1,000 each on the accounts payable closing package. The total of these vouchers was $21,343. In addition, the list of invoices paid in September was overstated by $97.796 because it included one payable to another State agency that should have been included on the interfund payables closing package and included four other payables that were included on the listing twice.

Section 3.12 of the GAAP Closing Procedures Manual states that the Department should exclude vouchers with a total voucher amount of less than $1,000. Section 1.7 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend that at the Department ensure that all closing packages are prepared in accordance with the instructions. In addition, more care should be taken in the preparation and review process to ensure that the amounts reported are correct and only include the appropriate items.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COLUMBIA, SOUTH CAROLINA

ACCOUNTANT'S COMMENTS
JUNE 30, 2005

Capital Assets:

The Department's capital assets closing package did not show corrections to beginning balances of certain land that was determined to have been transferred to the Department of Motor Vehicles in prior years. In addition, the closing package showed a transfer of certain property to the Department of Motor Vehicles that took place in June 2004 as a current year transfer. The Department also was not separating out depreciable land improvements from building costs on the closing package. In addition, other beginning balances on the closing package were not adjusted to agree with the Department's audited financial statements as of June 30, 2004.

Section 3.9 of the GAAP Closing Procedures Manual contains the instructions for the Capital Assets closing package and discusses reporting of adjustments to beginning balances. In addition, this section states that parking lots should be reported as depreciable land improvements. Good controls require beginning balances to agree with prior year audited amounts.

We recommend that the Department ensure that all amounts are properly reported on the Capital Assets closing package.

Grant/Contribution Receivables and Deferred Revenue:

Our review of the closing package disclosed that the Department reported $1,994,802 for GAAP Code 4005 that should have been reported as GAAP Code 7005. In addition, the Department classified $400,000 of grant deferred revenues as being from operating grants instead of capital grants.

Section 3.3 of the GAAP Closing Procedures Manual requires the Department to review the GAAP fund classification for each federal subfund. Also, this section states that if the grantor restricts the grant resources for capital purposes, the grant is a capital grant.

We recommend that the Department ensure that all amounts are correctly reported in the closing packages.

Interfund Payables:

Our review of the interfund payables closing package disclosed that interfund payables included three interdepartmental transfers that were less than $5,000 each. The total of the three payables was $8,821. In addition, the Department listed four interdepartmental transfers totaling $225,135 on the closing package that were paid in September and did not submit an amended closing package when they revised their list of payments to other agencies that were not paid by the end of August. This revised listing included an additional $667,584 in payables.

Section 3.18 of the GAAP Closing Procedures Manual requires the Department to only list each individual document which is $5,000 or more. The manual also states that the Department should only include payments made in July or August and should submit an addition sheet of paper identifying any payables that had not been paid as of the end of August. In addition, Section 1.8 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend additional care be exercised in preparing the interfund payables schedule and in performing the supervisory reviews of the listing and the related documentation that supports the interfund payables closing package as of each year-end.

MANAGEMENT'S RESPONSE

ATTACHMENT A

Response to Management Letter Points
FY 2005 Agreed Upon Procedures
December 28, 2005

Additional Documentation Needed on Receipts

- We concur with the finding. DPS will meet with the originating departments and explain the need to forward additional documentation on bank deposits to the Revenue Department.

Receipts not Deposited Timely

- We concur with the finding. DPS will meet with the areas within the agency and explain the need to make cash deposits in a timelier manner.

Receipt Improperly Coded

- We concur with the finding. DPS will more closely review bank deposits, and more closely review what accounts codes are used.

Required I-9 Forms not in File

- We concur that the I-9 forms were missing from certain personnel files. A follow-up review by the Internal Audit Department (IAD) found a reasonable explanation for these discrepancies. Employees were either hired prior to the formation of SCDPS or from the period 1994 to 1998. During those time frames SCDPS's policy was to file the I-9 by year. A review of employees hired after 2005 showed an I-9 file in each personnel file; the current DPS policy.

Employee Changes not Supported by Employee Profiles

- We concur that transaction request (TR) forms were missing from certain personnel files. Most of the individuals with missing TR forms were STP employees paid with federal funds. The remaining individuals with missing TR forms were Highway Patrol Telecommunication officers. A review by IAD showed the payroll changes to all the individuals in question were controlled using a spreadsheet formula. IAD also noted that none of the individuals in question received any type of payroll increase, rather only reclassifications were made. Human Resource, Financial Services and the programmatic areas affected all agreed to the changes prior to the Payroll section making the changes.

Reconciliation not Prepared on Two Funds

- We concur with the finding. DPS will ensure that all funds are reconciled monthly.

Closing Packages Deficiencies

- We concur with the findings on the Accounts Payable, Interfund Payables, Capital Assets, Grant/Contribution Receivables and Deferred Revenue Closing Packages. The Accounting Department is trying to automate the year-end process, which will reduce the number of closing package errors. The following are steps Financial Services will follow for the coming year:

Accounts Payable:

- DPS will no longer include vouchers under $1,000 in closing packages.
- DPS will more closely review Accounts Payable Closing Package for reporting zero balance accounts.
- DPS will more closely monitor the separation of the Accounts Payable Closing package and the Interfund Payable Closing package.

Capital Assets:

- DPS will correct DMV's and DPS' closing packages to disclose the cost of land improvements and correct the land balance to reflect the DPS/DMV separation in 2003.

Grant/Contribution Receivables and Deferred Revenue:

- Next year, all Grant Deferred Revenues will be classified in GAAP Fund Code 7005.
- All Grant Capital Projects will be reported on the Capital Grants section of the Deferred Revenue Closing Package.

Interfund Payables:

- Next year, any payable amount below $5,000 threshold will not get placed on the the closing package.
- In the future, any payable amounts in FM03 period will go on an additional attachment sheet.
- DPS will send in any amended Interfund Payables if discovered in FM03.