

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE**

COLUMBIA, SOUTH CAROLINA

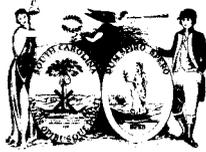
STATE AUDITOR'S REPORT

JUNE 30, 2002

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
GAAP CLOSING PACKAGES	
Introduction	5
Compensated Absences	5
Accounts Payable	6
Capital Assets	6
Recommendations	7
ACCOUNTING SYSTEM	
Reconciliations	8
Recording of Transactions	8
EXPENDITURES	
Timeliness of Payment	9
Fiscal Year	9
Object Code Classification	10
PAYROLL	11
SECTION B – STATUS OF PRIOR FINDINGS	12
MANAGEMENT'S RESPONSE	13

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 31, 2003

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 of the Indigent Defense (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2002 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. 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
July 31, 2003

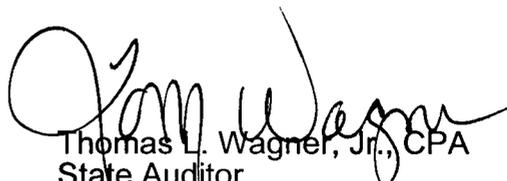
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if internal controls over the 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. Our findings as a result of these procedures are presented in Expenditures in the Accountant's Comments section of this report.
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 all new employees and those who terminated employment to determine if internal controls over these transactions were 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; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, and all 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. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are 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
July 31, 2003

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2002, 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 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 2002. Our findings as a result of these procedures are presented in GAAP Closing Packages, Accounting System, Expenditures, and Payroll in the Accountant's Comments section of this report.
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, 2001, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in GAAP Closing Packages 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, 2002, 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 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 perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission'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 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 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."

Compensated Absences

The annual leave liability was calculated using incorrect leave balances for two employees. The errors resulted in a net overstatement of the Commission's annual leave liability of \$239.65. Section 3.17 of the GAAP Manual provides guidance on the valuation of compensated absences liability and specifically states that the value of the actual annual leave balance should be reported.

During our review of employee leave balances and detail leave records for individual employees, we found that the Commission does not formally document the hours or dates that leave is taken. The Commission told us that employees verbally communicate leave time and that leave of less than one day is usually not recorded because employees may make up the time outside of their normal working hours.

Section 19-703.03 of the Office of Human Resources manual of State Human Resources Regulations requires the following regarding attendance, hours of work, leave, and record keeping:

- 1) The minimum full-time workweek is 37.5 hours.
- 2) Each agency must keep an accurate record of all hours worked and all leave taken. Leave shall be recorded in the appropriate categories and shown as either paid leave or leave without pay.
- 3) The ultimate responsibility for the accuracy and proper maintenance of attendance and leave records rests with the agency head.
- 4) Falsification of any attendance or leave record is cause for disciplinary action up to and including dismissal.
- 5) Each agency may develop and implement a variable work schedule for individual employees but the core hours that an agency shall be open for business are 8:30 a.m. to 5:00 p.m.

In addition, Sections 19-703.07 C. 1. and 19-703.08 B. 7. of the manual require leave records to be maintained by the agency for each employee and to be supported by individual leave forms signed by the employee and supervisor.

Accounts Payable

The Commission did not report any accounts payable for fiscal years 1998, 1999, 2000, 2001, and 2002. However, our testwork revealed that the Commission should have reported approximately \$30,000 on the closing package for fiscal year 2002 payables. The GAAP Manual defines accounts payable. These items should have been included on the Accounts Payable Closing Package as explained in Section 3.12 of the GAAP Manual.

Capital Assets

Per review of the Capital Assets Summary Form, we noted that the Commission removed all assets due to the capitalization criteria change. During our review of the Commission's inventory listing we noted one asset that should not have been removed. The Commission has a copy machine it purchased for \$9,444.75. Since this was the Commission's only asset that met the \$5,000 threshold it should have been reported as the End of the Year Balance as of June 30, 2002.

Sections 3.7 through 3.11 of the GAAP Manual provide guidance for properly reporting fixed asset additions, corrections, etc transactions on closing packages. Those sections and Section 1.9 provide guidance on the preparation and retention of adequate supporting documentation for each amount on each closing package for preparing and retaining adequate supporting documentation.

Recommendations

We recommend the Commission carefully review and follow applicable GAAP Manual instructions for completing all 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. We further recommend that the Commission establish procedures to ensure that all absences from work during scheduled hours are properly documented by leave records that are supported by leave slips signed by both the employee and the supervisor. The Commission should also implement procedures to ensure that each full-time employee reports a minimum of 37.5 hours of work plus approved leave each workweek. Also, the Commission should maintain an accurate capital assets listing showing all additions and retirements. The Commission should ensure that all assets meeting the capitalization criteria are properly depreciated. Finally, we recommend that the Commission prepare and retain adequate supporting documentation for all amounts recorded on 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 and reporting system (STARS) as reflected on Comptroller General reports. We noted the Commission does not reconcile expenditures or cash balances. They did reconcile revenues and receipts but those reconciliations lacked evidence (signature and date) of independent reviews by a responsible, knowledgeable agency employee other than the person who prepared the analysis.

For timely detection and correction of errors, Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual), requires monthly reconciliations to be timely prepared, adequately documented, and independently reviewed. 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 in STARS, as appropriate.

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

Recording of Transactions

During our testing we noted the following exceptions with how the agency is recording transactions.

- 1) We noted that the Commission is using both a Receipt Voucher and a Receipt Interdepartmental transfer to record money received from other state agencies.
- 2) We noted 22 instances in which the agency is using Disbursement Journal entries to record the receipt of unused funds from advancements paid to attorneys.
- 3) We also noted 3 instances in which the Commission used Disbursement Journal entries to record the sale of copies.

There is no consistency as to how transactions are being classified and recorded. We are unsure of the accumulation of transaction types since the agency is using disbursement forms to record receipt transactions.

We recommend that the Commission implement procedures to ensure that all transactions are being properly and consistently recorded. All transaction types should be accumulated in a consistent manner. All receipts should have a common identification and sequential numbering system.

EXPENDITURES

Timeliness of Payment

During our testing of expenditures we noted five instances in which vouchers were not paid in a timely manner. These vouchers were paid anywhere from 32 to 57 working days after the Commission received the requests for payment.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of the goods or services. Per discussion with agency personnel, we were informed that the late payments were due to a lack of operating funds.

We recommend the Commission adhere to the South Carolina Code of Laws regarding the timely payment of goods and services. The Commission should develop and implement procedures to facilitate the processing of invoices or request for payments within the 30 day period as described above.

Fiscal Year

During our testing of expenditures we noted four instances in which vouchers were not paid in the proper fiscal year. In all of the four instances the services were rendered prior to the close of fiscal year ending June 30, 2002. The vouchers noted were paid in fiscal year 2003 and totaled \$29,088.65.

The Commission receives requests for payments from attorneys throughout South Carolina for legal fees incurred by individuals who are considered indigents. The Commission does not know in advance how many individuals will attain indigent status or the extent legal fees will be incurred. The four payments noted in the previous paragraph were paid with fiscal year 2003 funds because the Commission exhausted their fiscal year 2002 funds for indigent cases prior to the end of the year. The funding provided by the State of South Carolina was not adequate to cover costs incurred for the defense of indigents.

Section 72.2 of the fiscal year 2002 Appropriation Act states that it is the intent of the General Assembly to appropriate all State funds and to authorize and/or appropriate the use of all Federal and other funds or the operations of State agencies and institutions for the current fiscal year.

We recommend that the Commission adhere to the Appropriation Act regarding the use of funds. The Commission should also request additional funding from the South Carolina legislature to ensure that funds are available to pay legal fees of indigent clients.

Object Code Classification

During our testing of expenditures we noted that the Commission incorrectly classified the purchase of a computer. The Commission used an object code 0604, which is used to classify capitalizable data processing equipment. Since the addition did not meet the \$5,000 capitalization threshold, the Commission should have classified the asset with object code 5004, data processing equipment (non-capitalizable).

Section 2.1.6.20 of the STARS Manual requires that object code 5004 used for expenditures of \$5,000 or less per item.

We recommend that the Commission become more familiar with classification requirements set forth in the STARS Manual.

PAYROLL

During our Test of Payroll we were unable to agree one employee's gross pay to their employee profile. We noted that the employee received an unauthorized merit increase during the year. The Commission discovered the error three pay-periods after the increase was given. The error resulted in an overpayment of \$39.18. The Commission made no attempt to receive reimbursement from the employee.

Section 8-11-30 of the 1976 Code of Laws states that, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employment of the State to issue vouchers, checks, or otherwise pay salaries or moneys that are not due to state employees of any department of the State..."

We recommend that the Commission implement procedures to prevent errors of this nature from occurring in the future.

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, 2001, and dated August 27, 2002. We determined that the Commission has not taken adequate corrective action on the findings regarding GAAP Closing Packages and Accounting System. Each of these deficiencies will be addressed under the same title in Section A of the Accountant's Comments of this report.

MANAGEMENT'S RESPONSE



SOUTH CAROLINA OFFICE OF INDIGENT DEFENSE

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September 11, 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 2001-2002

Dear Mr. Wagner:

This letter will acknowledge receipt of the above document, 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 2001-2002 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:

Compensated Absenses (Page 5):

The Commission has documented leave time for the past two fiscal years utilizing leave request forms and a leave record for each employee. All leave take is recorded including leave for less than one day. This was also in effect for the previous fiscal year's audit.

Accounts Payable (Page 6)

We will attempt to correct this matter. One of the problems generated by this exception results when checks are issued at the end of the fiscal year but do not clear prior to the actual end of the fiscal year.

Capital Assets (Page 6)

This was not listed in error. It is on the Commission's inventory of property.

We will follow all recommendations presented on Page 7.

Accounting System (Pages 8 and 9):

This Agency is now in compliance for Fiscal Year 2003-2004 with all exceptions noted in this section.

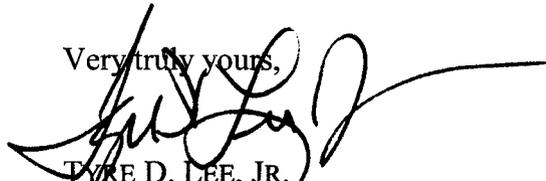
Expenditures (Pages 9 - 11)

This Agency is now in compliance for Fiscal Year 2003-2004 with all exceptions noted in this section. As to the recommendations made, I note that the audit team recommends that **“The Commission should also request additional funding from the South Carolina legislature to ensure that funds are available to pay legal fees of indigent clients.”** (Page 10, emphasis added) The Agency has made this request for the last three consecutive years, but rather has had its funding reduced by more than 45% over this same time period. We intend to make this request again during the upcoming budget cycle.

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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