

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2013

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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

April 6, 2015

The Honorable Nikki R. Haley, 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, 2013, 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 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$12,900 – earmarked fund, \$70,800 – restricted fund, and \$1,300 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in General Ledger Account and Sub-Fund 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 in accordance with the Commission'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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$110,900 – general fund, \$14,000 – earmarked fund, \$60,800 – restricted fund, and \$1,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Intangible Asset Capitalization 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 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 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 Commission'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 current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and restricted funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$110,900 – general fund and \$60,800 – restricted 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Commission's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Termination Pay in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, recorded operating transfers, and recorded 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 Commission's policies and procedures and State regulations.

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

5. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

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

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, prepared by the Commission and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. **Status of Prior Findings**

- We inquired about the status of 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, 2012, to determine if the Commission had taken corrective action.

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

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Commission on Indigent Defense
April 6, 2015

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.", written in a cursive style.

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.

GENERAL LEDGER ACCOUNT AND SUB-FUND

During our testing of cash receipts and revenue, we noted two instances in which the Commission recorded revenue in an incorrect general ledger account and/or Sub-Fund.

1. A refund for overpayment of Attorney Fees from fiscal year 2012 was posted to general ledger account 5021030000 – Attorney Fees instead of general ledger account 4520010000 – Refund of Prior Year Expenditures.
2. A receipt was posted to general ledger account 4225010000 – Conviction Surcharge sub-fund 43130000 instead of general ledger account 4350170000 – Civil Action App and sub-fund 43100000.

These errors were a result of agency oversight, and were not caught during the approval process.

The South Carolina Comptroller General's Office provides account coding specifications to ensure consistent recording of revenues and expenditures among state agencies. The general ledger accounts, which refer to the commodity or service obtained from the expenditure or the source of revenue, are essential elements of the South Carolina Enterprise Information System (SCEIS) and correct general ledger account classification is vital for accurate reporting.

We recommend the Commission strengthen internal controls to ensure that all revenues are recorded properly in SCEIS.

INTANGIBLE ASSET CAPITALIZATION

During our comparison of current year expenditures to those of the prior fiscal year, we noted an error in the capitalization of an intangible asset. We found that the Commission had purchased software improvements for the Circuit Public Defender Case Management system totaling \$160,000 during fiscal year 2013. The Commission did not capitalize the acquisition, but instead expensed the cost because it did not believe licensed software was subject to capitalization.

Part III, Section 8 of the Comptroller General's Reporting Policies and Procedures Manual states that "State agencies are required to capitalize purchased software, websites, and internally-generated software which is [sic] developed in-house by agency personnel or by a third party contractor. . . . Agencies should view the purchase of a single software program as the purchase of a single intangible asset subject to the \$100,000 capitalization threshold, regardless of the number of licensed seats the agency purchases."

We recommend the Commission implement procedures to ensure assets are capitalized in accordance with the state-wide policy.

TERMINATION PAY

During our testing of payroll for employees who terminated employment, we noted one instance in which the Commission paid an employee for more than 45 days of annual leave. The Commission calculated the employee's annual leave payout using the employee's accrued annual leave balance instead of using 45 days. The error resulted in an overpayment of \$672.

Section 19-709.05 of SC HR regulations state, "Upon separation from State employment, a lump sum payment will be made for unused annual leave, not to exceed 45 days, unless a higher maximum is authorized under Section 19-709.02 C., and without deducting any earned leave taken during the calendar year in which the employee separates."

We recommend the Commission implement controls to ensure that termination pay is calculated in accordance with State regulation. We also recommend the Commission recover the overpayment made as a result of the error and remit it to the State General Fund.

REPORTING PACKAGES

In our testing of GAAP Reporting Packages, we found that the Commission reported inaccurate information on three of its reporting packages. The Commission did not follow proper policies and procedures provided by the Comptroller General's Office when completing the packages. We noted the following deficiencies:

Prepaid Expense Reporting Package:

- The Commission failed to file a Prepaid Expense Reporting Package related to its copier lease even though it pays the lease on an annual basis and 11 of 12 months of the lease period occurred in the subsequent fiscal year.

Capital Assets Reporting Package:

- The Commission failed to file a Capital Assets Reporting Package despite answering YES to question 19 on the Master Reporting Checklist which asks if the agency reported any assets at the end of the year and if the agency owned any assets at June 30.

Grants and Contributions Revenue Reporting Package:

- Federal Operating Grants Receivables were erroneously reported as non-current receivables rather than current.
- The Commission mistakenly reported a grants receivable from fiscal year 2012 as a contributions receivable on the fiscal year 2013 reporting package. This grants receivable was collected during fiscal year 2013 and should not have been reported.

The Office of the Comptroller General's Reporting Policies and Procedures Manual provides specific and detailed instructions for completion of the GAAP reporting packages.

We recommend the Commission implement policies and procedures to ensure proper completion and review of the reporting packages.

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 South Carolina Commission on Indigent Defense for the fiscal year ended June 30, 2012, and dated February 21, 2014. We determined that the Commission has taken adequate corrective action on each of the findings, except for the comments titled Termination Pay and Grants and Contributions Reporting Package.

MANAGEMENT'S RESPONSE



SOUTH CAROLINA COMMISSION ON INDIGENT DEFENSE

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May 15, 2015

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

Dear Mr. Gilbert:

This letter is in response to the Accountant's Comments in the Independent Accountant's Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2013 and received April 23, 2015.

We have reviewed the findings and our responses are below. We will take corrective actions as recommended.

General Ledger Account and Sub-Fund: Two transactions, out of thousands that the agency processes annually, were keyed incorrectly. It is simply impossible to avoid the occasional human error with the extremely large volume of transactions that are processed in this agency.

Intangible Asset Capitalization: A misinterpretation of the applicable policy resulted in this finding. The agency will implement procedures to ensure accurate and correct reporting in accordance with state policy.

Termination Pay: While processing an employee separation from state government, it was mistakenly assumed the SCEIS system would automatically calculate the maximum allowable leave payout. The agency has written to the former employee and will continue efforts to obtain a refund from the terminated employee. Every effort will be made to ensure termination pay is calculated in accordance with State regulation.

GAAP Reporting Packages: Procedures will be implemented to ensure proper completion and review of reporting packages.

We will continue to make every effort to ensure that our financial reporting is accurate, timely and in compliance with all laws, rules and regulations.

Release of the final report is authorized. A current list of our commission members is enclosed, including email and mailing addresses.

Very truly yours,

A handwritten signature in cursive script that reads "Patton Adams". The signature is written in black ink and is positioned above the printed name.

Patton Adams
Executive Director

Enclosure

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.