

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

June 30, 2013

State of South Carolina



Office of the State Auditor

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March 10, 2014

The Honorable Nikki R. Haley, Governor
and
Mr. Leroy Smith, 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, 2013, was issued by The Hobbs Group, 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,

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

RHGjr/cwc

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June 30, 2013

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

March 10, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of 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, 2013, in the areas addressed. The Department'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 Department'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 general, earmarked, restricted, and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$2,000 – general fund, \$115,000 – earmarked fund, \$5,300 – restricted fund, and \$109,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen haphazardly. 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 Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$299,000 – general fund, \$119,000 – earmarked fund, \$13,000 – restricted fund, and \$109,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen haphazardly. 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, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department'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 Department's policies and procedures, that the employee's first and/or last paycheck 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, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$299,000 – general fund, \$119,000 – earmarked fund, \$13,000 – restricted fund, and \$109,000 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

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, 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 Department's policies and procedures and State regulations.

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

5. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013 and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly 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 Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

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 Department's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.

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 Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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.

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

6. Appropriation Act

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

We found no exceptions as a result of the procedures.

7. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 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 the procedures are presented in Reporting Packages in the Accountants’ Comments section of this report.

8. 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 Department 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.

9. Status of Prior Finding

- We inquired about the status of the findings reported in the Accountant’s Comments section of the State Auditor’s Report on the Department resulting from the engagement for the fiscal year ended June 30, 2012, to determine if the Department had taken corrective action.

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 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 members of the State Budget and Control Board, the South Carolina Office of the State Auditor and the management of the South Carolina Department of Public Safety and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

ACCOUNTANTS' 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 Department 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.

REPORTING PACKAGES

Operating Leases Reporting Package:

During our review of the 2013 operating leases reporting package we noted the Department inadvertently reported \$186,403 as the total 2016 future minimum payments when the total should have been \$399,673. This error was the result of a clerical error and went undetected by the Department during the review, causing the future minimum payment to be understated by \$213,270.

The requirements and instructions for completing the reporting packages are included in the Reporting Policies and Procedures Manual. Section 1.7 Summary of Department Responsibilities states "Each Department's executive director and finance director are responsible for submitting....reporting package...that are accurate and prepared in accordance with instructions."

Compensated Absences Package:

In our review of the compensated absences reporting package we noted an instance in which the annual leave balance per the employee's leave statement did not agree to the annual leave balance from the Compensated Absence Report generated by South Carolina Enterprise Information System which was utilized to prepare the compensated absences reporting package. The employee's leave statement stated an annual leave balance of 175 hours while the Compensated Absence Report stated a leave balance of 179 hours. This error was an oversight by the preparer and was not detected during the review.

Section 1.8 Other Payroll Related Liabilities states "A Compensated Absence Report will be generated centrally with each Department's information distributed for review and identification of omissions and errors. Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form."

We recommend that Department personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages and compare the underlying working papers prior to submission to eliminate errors.

SECTION B – STATUS OF PRIOR FINDING

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 Department for the fiscal year ended June 30, 2012, and dated April 4, 2013. We determined that the Department has taken adequate corrective action on the findings.

MANAGEMENT'S RESPONSE

Attachment A



South Carolina Department of Public Safety

March 20, 2014

The Hobbs Group, PA
1704 Laurel Street
Columbia, SC 29201

Please see our responses to your findings below:

Reporting Packages – Operating Leases

Management will implement review procedures that include additional review of detail supporting reporting packages, including steps to ensure data included in the reporting packages is free of clerical errors.

Reporting Packages – Compensated Absences Package

Management will implement review procedures that include additional review of detail supporting reporting packages, including additional steps to confirm data received from SCEIS agrees to data obtained by SCDPS staff from SCEIS.

Sincerely,

Stephen B. Fulmer, CPA
SCDPS Director of Financial Information and Reporting