

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY*

June 30, 2016



**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

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June 12, 2017

The Honorable Henry McMaster, 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, 2016, 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 blue ink that reads "George L. Kennedy, III". The signature is written in a cursive style.

George L. Kennedy, III, CPA  
State Auditor

GLKIII/cwc

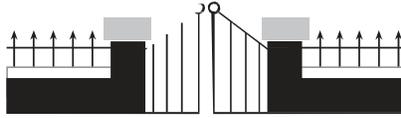
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June 30, 2016

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## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

June 12, 2017

Mr. George L. Kennedy, CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

We have performed the procedures enumerated 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, 2016, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. 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 enumerated 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 twenty-five 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 five 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 (\$3,540 – general fund, \$366,000 – earmarked fund, \$84,000 – restricted fund, and \$258,000 – federal fund) and  $\pm 10$  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 twenty-five 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 twelve 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 (\$960,000 – general fund, \$435,000 – earmarked fund, \$63,600 – restricted fund, and \$312,000 – federal fund) and  $\pm 10$  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 twenty-five 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 seventeen selected new employees and sixteen individuals 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 (\$960,000 – general fund, \$435,000 – earmarked fund, \$63,600 – restricted fund, and \$312,000 – federal fund) and  $\pm 10$  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  $\pm 10$  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 eighteen selected recorded journal entries, two operating transfers, and nine 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, 2016 and inspected four 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 seven 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 seven selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.

##### *Non-Payroll Disbursements and Expenditures*

- We inspected seven 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 seven selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen haphazardly. The cash receipts and disbursement transactions were selected haphazardly. 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 provisos, as listed in the Appropriation Act work program, and Department specific provisos, if applicable.

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, 2016, 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 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 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, 2016, 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.

The concept of materiality does not apply to findings to be reported in the agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. The State Auditor and management of the Department has agreed that the following deficiencies will not be included in the Independent Accountants' Report on Applying Agreed-Up On Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the specified elements, accounts, or items. Accordingly, we do not express

such an opinion or conclusion. 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, management of the South Carolina Department of Public Safety and the South Carolina Office of the State Auditor 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 a violation of State Laws, Rules or Regulations.

## REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are accurate, and prepared in accordance with instructions, complete, and timely." We tested the Department's fiscal year 2015-16 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following errors were noted during our testing of reporting packages:

### *Late Reporting Packages*

Four out of fourteen reporting packages were not submitted timely.

### *Inventory Reporting Package*

An inventory count revealed certain inventory items purchased after the fiscal year end were backdated to be included in inventory for the year ended June 30, 2016. The reporting package reported \$4,934,657 as the value of inventory. The inventory count reported \$4,909,306 as the ending value of inventory. This resulted in the reporting package being overstated by \$25,351.

### *Operating Lease Reporting Package*

Per Section 3.09.1a V. Leases with Future Minimum Lease Payments, we noted the periodic minimum payment for two building leases was not accurately reported which resulted in the future minimum lease payment schedule being understated. One lease reported a periodic minimum lease payment as \$18,966 per month when the lease agreement states \$19,724. The other lease reported a periodic minimum lease payment as \$10,650 per month when the lease agreement states \$11,079. These differences resulted in the Future Minimum Lease Payment Schedule being understated by \$68,266.

### *Recommendation*

We recommend the Department implement procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Department's accounting records, independently review for accuracy, performed timely and completed in accordance with instructions.

## Responses for FY2016 Agreed-Upon-Procedures

### Late Reporting Packages:

We concur with this finding. The agency some unanticipated personnel changes occur during the closing package period which resulted in the agency experience brief delays in meeting the reporting package deadlines. We do not expect to have this problem in the coming year.

### Inventory Reporting Package:

We concur with this finding. We meet with all the participants' who were involved in the situation. We have reviewed the proper internal control procedures relating to year-end inventory cutoff. We fully expect internal controls to be followed in the FY2017 inventory count.

### Operating Lease Reporting Package:

We concur with this finding. We have met and reviewed this situation and fully expect to comply with reporting the correct amount in the Future Minimum Lease Payment Schedule for FY2017.