

**SOUTH CAROLINA
COMMISSION ON INDIGENT DEFENSE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2012

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 21, 2014

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, 2012, 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 (\$16,400 – earmarked fund, \$72,800 – restricted fund, and \$1,400 – federal fund) \pm 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures can be found in Recording of Receipts by Fiscal Year 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 (\$69,700 - general fund, \$17,500 – earmarked fund, \$80,900 – restricted fund, and \$1,300 – federal fund) and ± 10 percent.

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 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 (\$69,700 – general fund and \$80,900 – 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 findings as a result of these procedures are 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, 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 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.

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

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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, 2012, completed 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.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Commission on Indigent Defense
February 21, 2014

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 South Carolina Commission on Indigent Defense resulting from our engagement for the fiscal year ended June 30, 2009, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the fiscal years ended June 30, 2010 and 2011.

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.

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.



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.

TERMINATION PAY

During our testing of employees who terminated employment with the Commission during the fiscal year ended June 30, 2012 we noted two exceptions in which an employee was not paid in accordance with the 1976 Code of Laws. The exceptions were as follows:

Salary Payment Schedule

One employee was not paid in accordance with the State's Salary Payment Schedule. The employee in question received terminal remuneration twelve work days after payment was due.

Section 8-11-35 of the 1976 Code of Laws states, "Except as otherwise provided by law, appropriations for compensation of state employees must be paid in twice-monthly installments to the person holding the position. To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues thereafter on a twice-monthly schedule as established by the State Budget and Control Board."

We recommend that the Commission implement procedures to ensure employees are paid in accordance with the State's Salary Payment Schedule.

Overpayment

One employee was overpaid at termination. The employee in question worked three days of the final pay period, but received compensation for four days, resulting in an overpayment of \$452.

Section 8-11-30 (A) of the 1976 Code of Laws states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees."

We recommend that the Commission implement procedures to ensure employees are paid in accordance with Section 8-11-30 (A) of the 1976 Code of Laws. Also, we recommend the Commission make an effort to recover the amount paid in error to the former employee.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual (Summary of Agency Responsibilities) 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." Based on our procedures we noted the following:

Master Reporting Package Checklist

During our review of the Master Reporting Package Checklist we noted that the checklist was submitted to the Comptroller General's Office on July 17, 2012, two days after the deadline. Section 1.5 (Reporting Package Due Dates) of the Comptroller General's Reporting Policies and Procedures Manual requires the Commission to submit the Master Reporting Package Checklist "No later than July 15."

Grants and Contributions Revenue Reporting Package

During our review of the Grants and Contributions Revenue Reporting Package we noted the following items:

The Commission failed to report \$46,129 of reimbursements they expected to receive from the federal government within the next year as a current receivable on the Grant Receivables and Deferred Revenue Summary form. The instructions for Form 3.3.2 Grant Receivables and Deferred Revenue Summary instruct the preparer to enter the current portion of the space provided.

The Commission reported \$47,254 of reimbursements they received during fiscal year 2012 from a federal operating grant as a receivable balance on the Contributions Receivable and Deferred Revenue Summary Form. The reimbursements in question were neither receivable at fiscal year-end, nor contributions as defined by Part IV of the Comptroller General's Reporting Policies and Procedures Manual. The instructions for Form 3.3.3 Contribution Receivables and Deferred Revenue Summary state, "This form is to provide information regarding receivables and deferred revenue at year-end arising from contribution transactions. The form should report all funds that report Contribution Revenue."

Operating Leases Reporting Package

During our review of the Commission's Operating Lease Reporting Package we noted the following items:

- On the Operating Leases Summary Form, the Commission overstated the amount of their contingent rent payments by \$130,473 and understated required minimum payments by the same amount.
- On the Operating Leases Summary Form, the Commission failed to provide a detailed list of contingent rental agreements.
- On the Operating Leases Future Minimum Payment Schedule, the Commission listed the monthly payment amount instead of annual sum of monthly payments, which had a cumulative effect of understating future payments by \$1,370,603 through fiscal year 2022.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "A supervisory employee should perform a review that includes the following steps: Gain a thorough understanding of the concepts and policies relating to the reporting package in the appropriate section of this manual, complete the reviewer's checklist in accordance with the instructions provided, and thoroughly review the methodology used in compiling reporting package data."

We recommend that the Commission implement policies and procedures to ensure all amounts and disclosures are accurately and completely reported.

APPROPRIATION ACT

Personal Property Inventory

Section 10-1-140 of the 1976 Code of Laws states, "The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables."

During our review of the Commission's compliance with this law, we noted that the Department did not perform the required annual inventory of personal property.

We recommend that the Commission develop and implement procedures to ensure compliance with Section 10-1-140 of the 1976 Code of Laws.

Attorney Fees

Section 1-7-170 of the 1976 Code of Laws states, "A department or agency of state government may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him."

During our review of the Commission's compliance with this law, we noted payments to an attorney for consultation services, which no approval was sought from the Attorney General's Office.

We recommend that the Commission develop and implement procedures to ensure compliance with Section 1-7-170 of the 1976 Code of Laws.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

RECORDING OF RECEIPTS BY FISCAL YEAR

During our testing of receipts we noted one transaction which was received on 6/30/2011 and was recorded in SCEIS by the Commission. However, the transaction failed to properly post in SCEIS. The Commission did not detect the error until almost one year after the transaction was initially recorded. After discussing the error with the Comptroller General's Office the transaction was reentered into SCEIS on 6/21/2012. This error was not timely detected because the Commission does not periodically reconcile all cash receipts to SCEIS.

Effective internal controls and good business practices require the timely recording of accounting transactions. Timely recording of accounting transactions provides management with current information which enables them to make sound business decisions based on current information. Effective internal controls also include policies and procedures which ensure the timely detection and correction of errors.

We recommend the Commission develop and implement procedures to ensure timely reconciliation of the Commission's subsidiary ledger (receipt book) to the general ledger to ensure that all transactions are posted.

SECTION C - 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, 2009, and dated September 9, 2010. We applied no procedures to the Commission's accounting records and internal controls for the fiscal years ended June 30, 2010 and 2011. We determined that the Court has taken adequate corrective action on each of the findings, except for the comments titled Master Reporting Package Checklist and Salary Payment Schedule.

MANAGEMENT'S RESPONSE

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March 21, 2014

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 the Accountant's Comments in the Independent Accountant's Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2012 and received March 18, 2014.

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

Salary Payment Schedule: This resulted from a change in the termination date for the employee who was originally scheduled to terminate on 5/1/12, but changed her last of day of employment to 5/3/12. It took several days of communication with SCEIS and the Comptroller General's office to learn how and then to process an "Off-cycle Payroll Request Form". This resulted in the final payroll check being issued twelve work days after payment was due. We communicated with the employee during the process and kept her apprised of the issues causing the delay.

Overpayment: Employee was terminated on 8/22/11. Termination was processed on 8/23/11. The SCEIS work screen defaults to the date the transaction is being performed, however one work screen in SCEIS system requires the processor to change the date to back to the previous while keying the information in. The employee processing the termination failed to change the date and this error occurred.

Master Reporting Package Checklist: The reporting package was due on 7/15, which was a Sunday. The report was submitted on 7/17.

Grants and Contributions Revenue Reporting Package: A corrected package was submitted.

Operating Leases Reporting Package: Office space rent was included in contingent rent payments rather than required minimum payments.

A detailed contingent Rental list was provided by the Comptroller General's office, including General Ledger Codes. It was incorrectly assumed that these expenditures were already accounted for as detailed on the list. The future minimum lease payments amount was reported as monthly rather than annually. For FY13, the Comptroller General's office provided assistance in completing the report accurately.

Personal Property Inventory: This inventory is for property valued between \$1,000 and \$4,999K. Agency disbanded this practice because no furniture or equipment met the value threshold. We have reinstated the inventory process this year.

Attorneys Fee: We have made all division managers aware of this requirement and are in compliance.

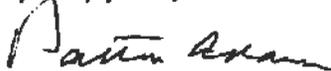
Recording of Receipts by Fiscal Year: This transaction was properly received, posted and disbursed by the agency. The transaction failed to accurately post at the CG level. The CG detected the error a year later and the agency reentered the transaction at their request. Cash reconciliations are performed on a monthly basis.

Most of these findings are a result of transitioning to SCEIS and learning the processes and procedures involved in this system.

We will continue 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,



Patton Adams
Executive Director

Enclosure

4 copies of this document were published at an estimated printing cost of \$1.60 each, and a total printing cost of \$6.40. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.