

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
BLYTHEWOOD, SOUTH CAROLINA*

June 30, 2012

State of South Carolina



Office of the State Auditor

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April 4, 2013

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, 2012, 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

TABLE OF CONTENTS
SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
BLYTHEWOOD, SOUTH CAROLINA
For the Year Ended June 30, 2012

I. Independent Accountants' Report on Applying Agreed-Upon Procedures.....1

II. Accountants' Comments

 Section A – Violations of State Laws, Rules or Regulations.....5

 Section B – Other Weakness8

 Section C – Status of Prior Finding10

 Management's Response.....11

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

April 2, 2013

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 the South Carolina Department of Public Safety (the "Agency"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2012, in the areas addressed. The Agency'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 general, 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 (\$1,000 – general fund, \$134,000 – earmarked fund, \$2,200 – restricted fund, and \$114,000 – 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 Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, 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 (\$260,000 – general fund, \$160,000 – earmarked fund, \$10,000 – restricted fund, and \$136,000 – 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 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 Agency'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 Agency's accounting records. The scope was based on agreed upon materiality levels (\$260,000 – general fund, \$160,000 – earmarked fund, \$10,000 – restricted fund, and \$136,000 – 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 Agency'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 Agency'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 Agency for the year ended June 30, 2012 and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency'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 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.

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 Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, 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 haphazardly. Our finding as a result of these procedures is presented in the Reconciliations of Composite Reservoir Account in the Accountants' Comments section of this report.

6. Appropriation Act

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and Agency 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, 2012, prepared by the Agency 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 closing 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, 2012, prepared by the Agency 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 finding reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the engagement for the fiscal year ended June 30, 2011, to determine if the Agency 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 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.

REPORTING PACKAGES

Subsequent Events Reporting Package

During our review of the 2012 subsequent events reporting package for accounts payable and interfund payables, we noted several items from prior years were improperly included. In our testing we determined the Agency overstated approximately seven and a half million dollars of accounts payable and twelve thousand interfund payables. These errors were undetected by the Agency.

The requirements and instructions for completing the reporting packages are included in the Reporting Policies and Procedures Manual. Section 2.1 of the manual states "Subsequent events are situations and transactions identified that affect the financial statements but occur subsequent to year end. If the knowledge of the event is obtained before the financial statements are issued the information must be evaluated for appropriate treatment."

We recommended the Agency reference the instructions for completing the reporting packages to ensure the information is reported accurately.

Master Reporting Package

Our review of agency prepared reporting packages revealed the Agency did not accurately complete the master reporting package. The master reporting package states the Agency was aware of instances of fraud or suspected fraud as well as allegations of fraud or suspected fraud; however, did not comply with submission instructions by failing to provide a description of the allegation(s) along with any actions taken by management to strengthen the internal controls. Upon further investigation management assessed the alleged fraud was not within the Agency, but with the sub-grantee. However, management did not resubmit a corrected master reporting package to reflect such assessment.

Section 1.7 Summary of Agency Responsibilities states "Each agency's executive director and finance director are responsible for submitting....reporting package...that are accurate and prepared in accordance with instructions."

We recommend the Agency implement internal controls to review each completed reporting package and the underlying working papers prior to submission to eliminate errors.

Accounts Payable Reporting Package

Our review of agency prepared reporting packages revealed the Agency did not timely submit the accounts payable reporting package.

The requirements and instructions for completing the reporting packages are included in the Reporting Policies and Procedures Manual. Section 1.7 of the manual provides, “Each agency’s executive director and finance director are responsible for submitting....reporting package...that are timely.”

We recommend the Agency develop and implement procedures to ensure the Reporting Packages are prepared, reviewed, and submitted by the due date as described in the Reporting Policies and Procedures Manual.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNT

We reviewed the reconciliation at year end and one other month during the year of the Agency's composite reservoir account. During our review of these reconciliations, we noted the reconciliations were not reviewed and approved by management nor were the reconciliations dated to determine if the reconciliation was prepared in a timely manner. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is signed and dated by the preparer and management noting approval provides evidence of the existence of an internal control that is designed to detect errors.

We recommend the Agency implement procedures to require a review and approval of reconciliations as well as both the preparer and the reviewer signing and dating the reconciliations.

SECTION C – STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant’s Comments section of the State Auditor’s Report on the Agency for the fiscal year ended June 30, 2011, and dated February 28, 2012. We determined that the Agency has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE

Attachment A



South Carolina Department of Public Safety

April 2, 2013

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

Please see our responses to your findings below:

Reporting Packages- Subsequent Events Reporting Package

This was caused by an inadvertent reporting error. Management will implement review procedures that include additional review of detail supporting reporting packages, including steps to ensure data included in the reporting package is for the correct fiscal year.

Reporting Packages- Master Reporting Package

In our initial discussions with accounting staff on the reporting package questions, we thought the question on fraud extended to subgrantees; however, we later determined the fraud question only refers to fraud at this agency. We initially marked "Yes" for the question on fraud, but neglected to change the answer after we determined the correct answer was "No." Management will implement additional review procedures that include management review of all answers on the Master Reporting Package to ensure the answers are inclusive of information obtained after our initial discussions on the Reporting Package questions with staff.

Accounts Payable Reporting Package

Management thought the deadline for the Accounts Payable Reporting Package had been extended; however, we have not been able to locate anything in writing from the Comptroller General's office indicating this. In the future, management will confirm due dates for all reporting packages, and obtain written confirmation of any extended due dates.

Reconciliations of Composite Reservoir Account

Management has assigned staff to review the Composite Reservoir account reconciliation. Procedures have been implemented that require the reconciliation to be reviewed monthly, and for both the preparer and reviewer to sign and date the reconciliation accordingly.

Sincerely,

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