

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS  
COLUMBIA, SOUTH CAROLINA**

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

**JUNE 30, 2004**

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

July 14, 2005

The Honorable Mark Sanford, Governor  
and  
Mr. Jon Ozmint, Director  
South Carolina Department of Corrections  
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 Corrections for the fiscal year ended June 30, 2004, was issued by Rogers & Laban, PA, 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 that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS**

**TABLE OF CONTENTS  
JUNE 30, 2004**

	Page
<b>INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES</b>	1 - 4
<b>ACCOUNTANT'S COMMENTS</b>	
<b>SECTION A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS,     RULES OR REGULATIONS</b>	5 - 7
<b>SECTION B – STATUS OF PRIOR FINDINGS</b>	8
<b>MANAGEMENT'S RESPONSE</b>	Attachment A



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and the management of the South Carolina Department of Corrections (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2004, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Department's reports to determine if recorded revenues were in agreement.
- 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 from sources other than State General Fund appropriations with those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented 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; were bona fide disbursements of the Department; 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented 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, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine that the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate to detect errors and/or irregularities.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

## 5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal accounting controls over the selected transactions were adequate to detect errors and/or irregularities.

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

## 6. Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Department's reports to determine if they were accurate and complete. 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 STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

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

## 7. Compliance

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

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

## 8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, 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 Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

**9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004 prepared by the Department and submitted to the State Auditor. We inspected it to determine that it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

**10. Status of Prior Findings**

- We inquired about the status of the deficiency described in the finding reported in the Accountant's Comments section of the State Auditor's Report resulting from their engagement for the fiscal year ended June 30, 2003, to determine if adequate corrective action has been taken.

The finding had not been corrected as detailed in the Status of Prior Audit Finding 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 areas, accounts, or items. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of the Governor, South Carolina Office of the State Auditor and the South Carolina Department of Social Services and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers & Lahan, PA*

July 11, 2005

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS  
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2004**

**CASH RECEIPTS**

Our testing disclosed that four receipts were not deposited in a timely manner. Three of these deposits were for the Prison Industries Division. We also noted one money order that was not listed on the check log so we could not determine if the receipt was timely deposited.

Proviso 72.1 requires receipts to be deposited at least once each week. A similar finding was noted in the prior State Auditor's Report dated December 19, 2003.

We recommend procedures be put in place to ensure that all receipts are deposited in a timely manner.

**NON-PAYROLL DISBURSEMENTS**

Our testing of non-payroll disbursements disclosed the following relating to the disbursements of inmate's trust funds:

1. Only 20% of inmate gross pay was withheld and paid out for court ordered child support instead of the required 35%
2. 3 disbursements did not have the required Department forms.

Department policy requires certain forms to be completed to support disbursements from inmate trust and other accounts. In addition, Department policy requires 35% of inmate pay to be withheld and remitted for child support.

We recommend that the Department follow its procedures to ensure that all required forms are completed before funds are disbursed and that the correct amounts are withheld for child support.

**PAYROLL DISBURSEMENTS**

**Payroll Vouchers**

The Department was not able to locate the March 16, 2004 payroll vouchers requested during our testing.

Good controls provide for a system of maintaining records so that all required records can be located as needed.

We recommend that the Department ensure that all records are properly maintained so that they are available for follow-up purposes as required.

**Inmate Time Sheets**

The Department does not retain timesheets to support the wage payments to inmates that are paid on a hourly basis.

Good internal controls require the maintenance and retention of timesheets that support payrolls to be signed by both the employee and their supervisor and retained as part of the Department's financial records.

We recommend that the Department retain time sheets to support the wage amounts paid to hourly inmates.

### **JOURNAL ENTRIES/APPROPRIATION TRANSFERS**

Our review of 25 journal entries disclosed two for which there was no explanation to support the purpose of the journal entry and there was no signature of an individual authorizing the entries. The same condition existed for one out of five appropriation transfers tested.

Good accounting controls require all journal entries and appropriation transfers to contain an explanation to document the purpose of the entry and the signature of the person who reviews and approves the entry.

We recommend that the Department implement procedures to ensure that all journal entries and appropriation transfers contain adequate supporting explanations and are approved by a responsible Department official.

### **RECONCILIATIONS**

During our testing of cash, revenue and expenditure reconciliations we noted that the following:

1. In some cases, the reconciliations were not signed by the preparer and/or reviewer.
2. The current process is cumbersome making it difficult for the accounting personnel to explain.
3. Instances were noted where differences lacked adequate written explanations making it difficult for the accounting staff to explain without significant research.
4. The Department does not maintain a copy of the report from their general ledger which is used to reconcile revenues and the reports are cumulative making it impractical to tie in the reconciliation to the general ledger after the fact.

The STARS Manual requires the reconciliation to be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, that the reconciliation be signed and dated by the preparer, and that the reconciliation be reviewed and approved in writing by a responsible Department official other than the preparer.

We recommend that the Department review its procedures to ensure that all requirements contained in the STARS Manual are being followed.

### **CLOSING PACKAGES**

#### **Cash and Investments:**

During our testing of the Cash and Investments closing package, we noted the following based on our review of the bank reconciliations:

1. Three of the bank accounts held by institutions other than the Comptroller General have approximately \$82,000 in outstanding checks listed that are older than one year.
2. Numerous accounts had adjustments reflected on the reconciliations that had not been posted to the general ledger.
3. One account balance shown on the closing package did not agree to the balance shown on the general ledger.
4. The total of the outstanding checks shown on the bank reconciliation does not agree to the outstanding check report as of June 30, 2004 for one of the accounts.
5. Some reconciliations contained unexplained differences or adjustments without adequate explanations.

6. There was no evidence that an individual other than the preparer had reviewed the reconciliations.

Good fiscal policy and internal controls require that old outstanding checks be voided in a timely manner and that all reconciling items are posted to the general ledger timely. A second person should also review the reconciliations to determine that they are completed properly. The GAAP Closing Procedures Manual requires the Department to report the reconciled balance on the closing package.

We recommend that additional care be taken in the preparation of the bank reconciliations and that all necessary adjustments are posted to the general ledger in a timely manner.

**Miscellaneous Accounts Receivable and Related Accounts:**

During our testing of Miscellaneous Accounts Receivable, we noted that the prison industries accounts receivable balance does not appear to be monitored for aging and no allowance for uncollectible accounts has been established even though greater than 20% of the balance from third-parties other than State agencies is beyond 90 days and may be uncollectible.

The GAAP Closing Procedures Manual states that an agency must estimate an allowance for uncollectible accounts if applicable.

We recommend that a review of the current Miscellaneous Accounts Receivable balances for collectability be conducted. We also recommend the Department gather historical data on the collection of past Miscellaneous Accounts Receivable and institute a procedure to use this data to monitor and evaluate the collectability of the Miscellaneous Accounts Receivable balances on an ongoing basis.

**Compensated Absences:**

Our testing of the accrued leave balances disclosed a misstatement of one employee balance of the twenty-five tested due to the fact that 37.5 hours of vacation time was keyed in as working hours resulting in an overstatement of the leave balance of approximately \$800.

Good internal control procedures require a system to ensure that all items are entered into the records correctly.

We recommend that procedures be implemented to ensure that all leave request forms are correctly entered into the leave system.

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS  
COLUMBIA, SOUTH CAROLINA**

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2004**

During the current engagement, we reviewed the status of corrective action plan taken on the finding reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 2003, dated December 19, 2003. We determined that the Department has not taken adequate corrective action on the finding related to Prison Industries deposits.

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**

MANAGEMENT' RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. CASH RECEIPTS

Prison Industries and Financial Accounting will work to develop procedures to deposit Prison Industries receipts more timely.

The non-Prison Industries receipt that was not deposited timely was an inmate tax refund. As a result of Internal Revenue Service investigations and recommendations, inmate tax refunds are held until the validity of the refund can be ascertained.

2. NON-PAYROLL DISBURSEMENTS

ONLY 20% OF INMATE GROSS PAY WAS WITHHELD AND PAID OUT FOR COURT  
ORDERED CHILD SUPPORT

Only 20% of one inmate's gross pay was withheld for court ordered child support, instead of the required 35%, and that was due to an error in a data entry screen for that inmate. We have reviewed numerous other inmate disbursement records and have found all to be paying 35% of gross pay for court ordered child support.

DISBURSEMENTS DID NOT HAVE THE REQUIRED DEPARTMENT FORMS

One of the payments in question was an E H Cooper Trust Fund disbursement. SCDC requires that all disbursements from E H Cooper Trust Fund for individuals or vendors are requested on an SCDC form for documentation purposes. When an inmate has been released from prison and failed to request his E H Cooper Trust Fund monies prior to leaving, SCDC accepts as documentation, a letter from the ex-inmate requesting his or her funds and providing a forwarding address. Because the inmate is no longer incarcerated, he has no access to the required forms.

The other two payments questioned by the auditors were closeout checks from the Prison Industries Private Sector Program. This account serves as a wash account for an inmate's net pay and statutorily mandated deductions and savings. Inmates do not request disbursements from this account unless they have been released, in which a case letter from the inmate requesting his or her funds and providing a forwarding address is accepted as documentation. The SCDC automated system generates a list of inmates being released on the first of each month and this list is the documentation to generate closeout disbursement checks.

3. PAYROLL DISBURSEMENTS

PAYROLL VOUCHERS

SCDC agrees with the auditor's findings and we will review our controls and procedures pertaining to the maintenance of all required records.

INMATE TIME SHEETS

Inmate time sheets are retained by SCDC. They are retained at the institution where the inmate is employed by Prison Industries.

MANAGEMENT' RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

4. JOURNAL ENTRIES/APPROPRIATION TRANSFERS

SCDC agrees with the auditor's findings and we will require that all source documentation have adequate supporting explanations.

5. RECONCILIATIONS

RECONCILIATIONS NOT SIGNED BY PREPARER OR REVIEWER

SCDC agrees with the auditor's findings and will sign and date future reconciliations in accordance with the requirements of the STARS MANUAL.

CURRENT PROCESS IS CUMBERSOME...DIFFICULT TO EXPLAIN

SCDC agrees with the auditor's findings in that our reconciliations are complex. We are presently reviewing our reconciliation processes in an effort to simplify/automate them.

LACK OF ADEQUATE WRITTEN EXPLANATION

SCDC agrees with the auditor's findings. In the future, we will provide an explanation for all differences.

FAILURE TO MAINTAIN COPY OF GENERAL REPORT USED TO RECONCILE  
REVENUES

SCDC is currently maintaining the monthly cumulative reports. We will attempt to revise our reports so that they will not be cumulative.

CLOSING PACKAGES

CASH AND INVESTMENTS

SCDC agrees with the auditor's findings; we realize we have been deficient in this area and are working to correct our deficiencies.

MISCELLANEOUS ACCCOUNTS RECEIVABLE AND RELATED ACCOUNTS

The Division of Prison Industries has employees that continuously monitor their accounts receivable. Each fiscal year we review Prison Industries' receivables to determine their collectibility. At the end of fiscal 2004, Prison Industries stated that all receivables were believed to be collectible.

COMPENSATED ABSENCES

SCDC agrees with the auditor's findings. We will review our procedures and controls pertaining to entry into our time system.