

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

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# *State of South Carolina*



## *Office of the State Auditor*

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

November 20, 2009

The Honorable Mark Sanford, Governor  
and  
Mr. Jon Ozmint, Director  
South Carolina Department of Corrections  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by 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, 2008, 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 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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General'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 at the subfund and object code 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 (\$2,900 – general fund, \$214,300 – earmarked fund, \$9,400 – restricted fund, and \$44,500 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Codes and Deposits 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 agency'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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code 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 (\$602,600 – general fund, \$216,600 – earmarked fund, \$9,600 – restricted fund, and \$43,500 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Codes, Purchasing and Payment Procedures, and Expenditure Cutoff 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 processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if 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 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 pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code 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 (\$602,600 – general fund, \$216,600 – earmarked fund, \$9,600 – restricted fund, and \$43,500 – 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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries and all operating 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 journal entries selected were chosen randomly. Our findings as a result of these procedures are presented in Recording of Interfund Loans and Approval of Journal Vouchers and Operating Transfers 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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, 2008, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 STARS 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 and/or in STARS.

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

7. **Appropriation Act**

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

Our findings as a result of these procedures are presented in Blanket Bond Approval and Energy Study Approval 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, 2008, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **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 Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Deposits, Reconciliations, Closing Packages – Compensated Absences, Closing Packages – Cash and Investments, Closing Packages – Operating Leases, and Closing Packages – Capital Assets in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor  
and  
Mr. Jon Ozmint, Director  
South Carolina Department of Corrections  
November 20, 2009

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 management of the Department of Corrections and is not intended to be and should not be used by anyone other than these specified parties.

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

**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.

## OBJECT CODES

During our test procedures, we noted the following object code errors:

1. Two receipts for the sale of plants were recorded as a reduction to expenditures under object code 0316 – Agriculture, Marine, and Forestry Supplies but should have been recorded to revenue object code 7804 – Sale of Farm and Nursery Products.
2. The Department made a cash transfer between subfunds using object code 7201 – Miscellaneous Revenue rather than object code 7221 – Miscellaneous Transfer-Other Fund.
3. In order to fund a deficit in subfund 3948, the Department transferred funds using revenue object code 4834 – Community Correction Plan Assessment rather than object code 7221 – Miscellaneous Transfer – Other Fund.
4. The Department recorded federal grant revenues using object code 2805 – Federal Grant Sub-Contract State Agencies. Because the grant revenue was received directly from the federal grantor the Department should have recorded the revenue using object code 28xx.
5. A purchase of batteries for a digital camera was charged to object code 0303 – Copying Equipment Supplies rather than to object code 0311 – Photographic and Audiovisual Supplies.

The Comptroller General’s Statewide Accounting and Reporting Manual (STARS) provides definitions of object codes to help agencies properly classify revenues and expenditures. In addition, the STARS Manual states “Normally, both the "in" and "out" transactions should use STARS revenue object codes that have the word "transfer" in the title. If you cannot find another appropriate transfer object code, use Revenue Object Code 7221, Miscellaneous Transfer – Other Fund.”

We recommend that Department personnel who assign account classification codes to receipt and expenditure documents, as well as those who review and approve those documents, be knowledgeable of STARS object code definitions.

## **DEPOSITS**

We tested twenty-five Prison Industries receipt transactions and found that five receipt transactions were not timely deposited.

Section 72.1. of the 2008 Appropriation Act states that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend the Department establish procedures to ensure that receipts are timely deposited in accordance with State law.

## **PURCHASING AND PAYMENT PROCEDURES**

The South Carolina Code of Laws section 11-35-45 states “All vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General's office within thirty work days from acceptance of the goods or services and proper invoice.” In order to ensure compliance with this law, the Department requires that each invoice be date stamped upon receipt. We found one instance in which an invoice was not date stamped as required. In addition, we noted that eight purchases of less than \$2,500 did not stipulate that the price was fair and reasonable on the purchase requisitions.

Section 8-35-1550 of the South Carolina Code of Laws states “Small purchases not exceeding two thousand five hundred dollars may be accomplished without securing competitive quotations if the prices are considered reasonable. The purchasing office must annotate the purchase requisition: "Price is fair and reasonable" and sign.”

We recommend that the Department adhere to its internal procedures and ensure that all invoices are date stamped upon receipt. In addition we recommend that the Department ensure that all purchases under \$2,500 are annotated “Price is fair and reasonable”.

## **EXPENDITURE CUTOFF**

During our cutoff test of expenditures, we identified one voucher which the Department paid in the incorrect fiscal year. Proviso 72.2. of the fiscal year 2008 Appropriations Act states that all funds appropriated from the general fund of the State are appropriated to meet the ordinary expenses of State government for fiscal year 2008.

We recommend that the Office strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

## **EMPLOYER CONTRIBUTIONS**

We noted that the Department did not pay a proportionate share of employer contributions from the earmarked and restricted funds in fiscal year 2008. In response to our inquiry, the Department explained that an adjusting entry was necessary to transfer \$41,212 in employer contributions expenditures from its Education Improvement Act account to its Education Finance Act account. However, this entry was not made until fiscal year 2009.

Section 8-11-194 of the South Carolina Code of Laws states, in part the following: "Any agency of the State Government whose operations are covered by funds from other than general fund appropriations must pay from such other sources a proportionate share of the employer costs of retirement, social security, worker's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees."

We recommend that the Department establish procedures to ensure that adjusting entries necessary to distribute employer contributions proportionately among its funds are made in a timely manner.

## **RECONCILIATIONS**

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General's reports provide significant assurances that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Report are proper. To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- Performed at least monthly on a timely basis (i.e. shortly after month end)
- Signed and dated by the preparer
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

We reviewed the Department's fiscal year 2008 STARS reconciliations and noted the following:

1. Reconciliations of various STARS reports for fiscal months 01, 02, 05, 06, 07, 08, 09 and 11 were missing the signature and date of the preparer, the reviewer, or both the preparer and the reviewer. Because the dates of preparation or review were not documented, we were unable to determine whether the reconciliations were performed timely.
2. Reconciliations of the STARS 427 report for fiscal months 08 and 09 were not reviewed in a timely manner.
3. Reconciliations of various STARS reports for fiscal months 01, 06, and 07 included reconciling items that were not adequately explained.

In addition, we reviewed bank account reconciliations for the E.H. Cooper Trust Fund accounts, Special Funds accounts, Prison Industries Private account, and the Canteen Fund account and noted the following:

1. Certain reconciliations were missing the signature and date of the preparer, the reviewer, or both the preparer and the reviewer as follows:
  - a) Canteen Fund (Wachovia) – fiscal month 07
  - b) E.H. Cooper Trust Fund (First National Bank) – fiscal month 02
  - c) Prison Industries Private Account – fiscal months 01, 02, 03, 05, 09, and 10

Because the dates of preparation or review were not documented, we were unable to determine whether the reconciliations were completed timely.

2. None of the bank account reconciliations for fiscal month 01 were performed and reviewed in a timely manner. The reconciliations included a preparation date of September 25, 2007 and a review date of October 4, 2007.

We recommend the Department develop and implement procedures to ensure that all reconciliations are reviewed and approved in writing which includes a signature and date completed by an appropriate agency official other than the preparer in accordance with the STARS Manual. Additionally, we recommend that the Office perform monthly reconciliations on a timely basis.

### **BLANKET BOND APPROVAL**

The Department did not obtain State Auditor's Office Approval for its employee blanket bond.

Section 1-11-180 of the South Carolina Code of Laws states, in part, "In addition to the powers granted the Budget and Control Board under this chapter or any other provision of law, the Board may....(4) approve blanket bonds for a state agency, or institution including bonds

for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General.” (The Budget and Control Board has delegated this responsibility to the State Auditor.)

We recommend the Department develop and implement procedures to ensure compliance with Section 1-11-180 of the South Carolina Code of Laws.

### **ENERGY STUDY APPROVAL**

The Department did not obtain approval from the Office of Energy for two energy studies conducted during fiscal year 2008.

South Carolina Code of Laws section 48-52-435 states “In order to avoid duplicative studies, funds shall not be expended by state agencies for studies investigating alternative energy usage or conservation measures without prior approval of the State Energy Office and the Joint Legislative Committee on Energy.

We recommend that the Department develop and implement procedures to ensure compliance with Section 48-52-435 of the South Carolina Code of Laws.

### **CLOSING PACKAGES**

#### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State’s financial statements from agency prepared closing packages. To accurately report the Office’s and the State’s assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General’s GAAP Closing Procedures Manual (GAAP Manual) states that “The accuracy of closing package data is extremely important.

Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. The following describes the errors noted on certain fiscal year 2008 closing packages:

### **Compensated Absences**

We tested the annual leave balances of ten employees and found that the leave balance for one employee was incorrect. The error occurred as a result of the following:

1. The Department failed to accrue leave earned by the employee in April 2008 and
2. Leave taken in June 2008 was not deducted from the employee's leave balance.

The GAAP Manual, section 3.17, states "The accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency's records for each employee..." Office of Human Resources regulation 19-709.02 states "Employees who are in pay status one-half or more but not all of the workdays of the month shall earn annual leave for the full month." In addition, effective internal controls requires that leave records be updated timely to ensure that the balances reflected at fiscal year end are accurate.

## **Capital Assets**

The reported year-end capital asset balance for buildings and improvements did not agree with the Department's records (\$12 difference). Also, the reported current year depreciation for machinery and equipment did not agree with the Department's records (\$607 difference). Finally, the reported noncapitalizable permanent improvement expenditures on the additions reconciliation form did not agree with the Department's projects worksheet (\$4,553 difference).

## **Operating Leases**

We reviewed the operating lease closing package and determined that the Department made the following errors in its calculation of future minimum lease payments:

- The Department included contingent rentals of \$253,786.
- Sales tax totaling \$2,632 for four leases was omitted.
- Lease payments for nine leases were included twice resulting in an overstatement of \$15,309.
- The beginning and ending lease dates did not agree with the lease agreement for the Department's farm equipment lease resulting in a \$20 overstatement.

The errors resulted in an overstatement of \$271,747 in reported future minimum lease payments.

The GAAP Manual, section 3.19 states "Contingent rentals are excluded from future minimum lease payments." In addition, section 3.19 states "Sales taxes are executory costs that should be included as part of the minimum lease payment."

## **Cash and Investments**

We tested the Department's reported petty cash account balances and determined that the account balances did not agree to the total authorized petty cash account balances (\$408 difference). In addition, we noted that the Department could not provide authorization for numerous petty cash accounts, and increases and/or decreases to petty cash account funding levels.

The Comptroller General's Statewide Accounting and Reporting Manual (STARS) states, "The approval of the State Auditor is required to establish a petty cash fund."

## **Recommendations**

We recommend that the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. The procedures should include an independent review of each closing package by an individual knowledgeable of closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package. In addition, we recommend that the Department establish procedures to ensure that its leave system is timely updated to reflect leave earned and taken in order to report an accurate leave liability at fiscal year end. Finally, the Department should obtain authorization from the State Auditor's Office for each of its petty cash accounts where authorization is lacking or where funding levels differ from the amounts authorized.

## **SECTION B - OTHER WEAKNESSES**

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

## **RECORDING OF INTERFUND LOANS**

During our testing of operating transfers, we noted that the Department recorded four interfund loans and the subsequent repayments to STARS but failed to make the entries to the Department's accounting system.

Effective internal controls require that all transactions and events necessary for proper accounting and reporting in conformity with generally accepted accounting principles be recorded in the Department's accounting system.

We recommend that the Department establish procedures to ensure that interfund loans are properly recorded in the Department's accounting system in addition to STARS.

## **APPROVAL OF JOURNAL VOUCHERS AND OPERATING TRANSFERS**

We determined that nine of twenty-five journal vouchers and four of twenty-one operating transfers lacked signatures evidencing proper approval of the transactions.

Effective internal controls require that transactions be independently reviewed and approved to prevent errors or unauthorized transactions from occurring.

We recommend that the Department implement procedures to ensure that all journal vouchers and operating transfers are properly reviewed and approved by the appropriate official independent of the preparer. Such procedures should require the appropriate official to evidence approval by signing the voucher and transfer documents.

**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 Department for the fiscal year ended June 30, 2007, and dated June 13, 2008. We determined that the Department has taken adequate corrective action on each of the findings with the exception of the following:

2007 Finding

Cash Receipts

Reconciliations

Closing Packages

Compensated Absences

Cash and Investments

Operating Leases

Capital Assets

2008 Finding

Deposits

Reconciliations

Closing Packages

Compensated Absences

Cash and Investments

Operating Leases

Capital Assets

**MANAGEMENT'S RESPONSE**

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS**

**1. OBJECT CODES**

SCDC agrees with the auditor's finding. Accounting personnel have been reminded to refer to the Statewide Accounting and Reporting Systems (STARS) manual for proper object code definitions to ensure proper classification of revenue and expenditures.

**2. DEPOSITS**

SCDC agrees with the auditor's finding. We have developed procedures to ensure that Industries' receipts are deposited in a timely manner at least once each week. Modifications were made to our accounting system by our Resource and Information Management staff to allow for prepaid items to be posted to the ledger. Additionally, in FY2009, we added "Remote Deposit Capture" capabilities for on line automated deposits to Wachovia Bank to ensure that all checks are entered when received and deposited at least weekly.

**3. PURCHASING AND PAYMENT PROCEDURES**

SCDC agrees with the auditor's finding. We have internal procedures that require that original invoices and copies are date stamped upon receipt, however for the one instance noted only the top copy was date stamped. Staff will be reminded of the procedures to prevent this from recurring. Stamps that stipulate that the "*Price is fair and reasonable*", are being ordered and will be used on purchase requisitions to ensure that SCDC is in compliance with the South Carolina Code of Laws section 11-35-45.

**4. EXPENDITURE CUTOFF**

SCDC agrees with the auditor's finding. Currently procedures are in place to have invoices submitted in a timely manner. Appropriate agency personnel will be reminded of the procedures and the importance of ensuring that expenditures are recorded in the proper fiscal year.

**5. EMPLOYER CONTRIBUTIONS**

SCDC agrees with the auditor's finding. Adjusting entries necessary to distribute employer contributions proportionately among funds will be made in a timely manner in the future. We have addressed this with the responsible staff.

**6. RECONCILIATIONS**

**A. STARS Reconciliations** - SCDC agrees with the auditor's finding. We have reviewed our procedures and have reminded the appropriate staff to ensure that all reconciliations are reviewed and approved in writing to include the signature and date completed by the reviewer in accordance with the Statewide Accounting and Reporting Systems (STARS) manual. SCDC will clear reconciling items in a timely manner and ensure that reconciling items are adequately explained.

MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. Bank Account Reconciliations - We experienced turnover in staff, staff shortage and staff out on medical leave and were behind in preparing bank account reconciliations for the period noted. The accounts were reconciled as soon as staff was available and have been prepared timely since then. We have reminded the appropriate staff to ensure that all reconciliations are reviewed and approved in writing to include the preparation date and both the preparer and reviewers signatures.

7. BLANKET BOND APPROVAL

SCDC agrees with the auditors findings. We have obtained the State Auditor's Office approval for our employee blanket bonds in accordance with Section 1-11-180 of the South Carolina Code of Laws.

8. ENERGY STUDY APPROVAL

SCDC agrees with the auditors findings. While we failed to obtain specific written approval, we worked with the State Energy Office, Office of State Engineer and/or the Materials Management Office prior to the beginning of either energy study. We will in the future maintain proper documentation to support the necessary approvals as required by South Carolina Code of Laws section 48-52-435.

9. CLOSING PACKAGES

A. Compensated Absences - SCDC strives to get every time sheet entered correctly and timely, however, situations occur that prevent timely entry as SCDC has over 3,700 positions that require weekly reporting of leave and attendance. Any good system must allow for entry, audit and adjustments and that is exactly what SCDC's compensated absence system does. As the reporting period for compensated absences remains so soon after the end of the fiscal year, SCDC could have difficulty in reporting compensated absences without some discrepancy.

B. Capital Asset SCDC agrees with the auditor's finding. A complete review of the closing package instructions will be done prior to submitting the closing package to insure that accurate and complete information is reported.

C. Operating Leases SCDC agrees with the auditor's finding. A review of the closing package instructions will be done prior to submitting the closing package to insure that accurate and complete information is reported.

D. Cash and Investments - SCDC agrees with the auditor's finding. We will review our petty cash accounts and obtain authorization from the State Auditor's Office where authorization is lacking or where funding levels differ from the amounts authorized.

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**SECTION B - OTHER WEAKNESSES**

**1. RECORDING OF INTERFUND LOANS**

SCDC agrees with the auditor's finding. We have informed staff and established procedures to ensure that interfund loans are properly recorded.

**2. APPROVAL OF JOURNAL VOUCHERS AND OPERATING TRANSFERS**

SCDC agrees with the auditor's finding. We have reviewed and enhanced our procedures to ensure that all journal vouchers and operating transfers are properly reviewed and approved by the appropriate official independent of the preparer.

**SECTION C - STATUS OF PRIOR FINDINGS**

SCDC continually strives to correct all deficiencies noted during each audit as soon as they are reported. **In** some instances, however, findings are unknowingly repeated due to the timing of the audits. The FY2008 fiscal year audit was completed after the close of the FY2009 fiscal year resulting in some of the deficiencies noted being repeated in FY2009.

4 copies of this document were published at an estimated printing cost of \$1.78 each, and a total printing cost of \$7.12. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.