

**SOUTH CAROLINA DEPARTMENT
OF JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 10, 1999

The Honorable James H. Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Juvenile Justice, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Lunch Ticket Fee in the Accountant's Comments section of this report.

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2. We tested 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, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as comparing 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 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 for testing were chosen randomly. Our findings as a result of these procedures are presented in Pay and Leave Transfer at Termination of Employment, Temporary Employee Hire Date, and Personnel Records in the Accountant's Comments section of this report.
4. We tested 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. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Journal Vouchers in the Accountant's Comments section of this report.

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5. We tested selected entries and monthly totals in the subsidiary records of the South Carolina Department of Juvenile Justice 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 controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1998, and tested 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 they were accurate and complete. For the selected reconciliations, we 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 for testing 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. We tested 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 1998. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the Department and submitted to the State Comptroller General. We reviewed 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 finding as a result of these procedures is presented in GAAP Closing Packages in the Accountant's Comments section of this report.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if 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.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. 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.

The Honorable James H. Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
May 10, 1999

This report is intended solely for the information and use of the Governor and of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

GAAP CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. The State's accounting system (STARS) is on the budgetary basis. We determined that the Department submitted to the Office of the Comptroller General certain incorrectly prepared and/or misstated fiscal year-end 1998 closing packages.

To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that the agency head and finance director are responsible for submitting closing packages "that are: •Accurate and completed in accordance with instructions. •Complete. •Timely." It recommends that a supervisory employee "Perform an effective review of each completed closing package and the underlying working papers."

The following outlines the errors noted on certain closing packages.

Compensated Absences

The Department reported a total liability of \$4,195,317 for compensated absences as of June 30, 1998, all of which was identified as annual leave except \$12,310 for holiday compensatory time and \$85,581 for overtime compensatory time. Individual supervisors at field offices of the Department are responsible for maintaining the holiday and overtime compensatory leave records for their employees, and the Department could not substantiate the holiday and overtime compensatory leave balances reported by the field supervisors. In order to accumulate and value the holiday and overtime compensatory leave liabilities, the

Department's Office of Human Resources (OHR) first requested that the field supervisors report accrued holiday and overtime compensatory leave hours as of May 31, 1998, and later requested net leave activity for June 1998 for the compensatory leave. OHR added the June net activity to the May 31, 1998, balances to obtain the accumulated compensatory leave balances at June 30, 1998, which it valued at the fiscal year-end current salary costs.

The summary schedule of the compensatory leave balance calculations prepared by OHR, contained both types of compensatory leave. The information was identified as either holiday or overtime. When we scanned the summary schedule, we noticed that all net activity reported in June 1998 was positive. Thus, it would appear that no compensatory leave was taken in June 1998 in excess of earnings in June, which seems improbable. Also, the schedule showed zero balances for holiday leave for certain employees as of May 31, 1998, and net earnings as high as 40 hours in June 1998 for those same employees. Because there are no State legal holidays in June, it appears unusual for an employee to accrue holiday leave in that month. In addition, some documentation submitted from the field offices did not contain the names of the supervisors and, therefore, the Department's staff did not always know whom to contact concerning the information. We were unable to determine the amounts of the misstatements of the holiday and overtime compensated absences liabilities as of June 30, 1998.

GAAP Manual Section 3.17 requires the agency to maintain working papers to support each figure of the Compensated Absences Summary Form to include for each employee the accumulated unused leave balances and the values of the liabilities for holiday compensatory time, overtime compensatory time, and annual leave.

Fixed Assets

The Department misstated fiscal year 1998 additions and retirements and the June 30, 1998, balance in the machinery, equipment and other category of fixed assets on the General Fixed Assets Summary Form. The Department understated additions by \$19,628 as a result of its exclusion of software which cost in excess of its \$300 capitalization limit and of other items received before June 30 but not yet added to its fixed assets detail listing. The 1997 Governmental Accounting, Auditing and Financial Review Practice Guide states on page 73, "It is recommended that externally acquired software be capitalized as an intangible asset." In addition, because the Department's staff incorrectly reported the total from its printout of fixed assets disposals, the Department understated retirements by \$593,101. As a result of the above errors, the June 30, 1998, balance for machinery, equipment and other is overstated by \$573,473, net.

When the Department completed the General Fixed Assets Summary Form, its fixed assets detail listing was incomplete and could not be relied upon to provide accurate balances. Further, the Department incorrectly answered "Yes" to the question on the Fixed Assets Closing Packages Reviewer Checklist in the GAAP Manual (Section 3.7) which asks, "Can all amounts reported on each fixed assets closing package form be traced back to official agency accounting records or to working papers?"

During completion of our engagement fieldwork in late fiscal year 1999, the Department's staff made corrections to the fixed assets ledgers as of June 30, 1998, and identified the resulting variances described above. However, the Department should keep its fixed assets subsidiary ledgers and fixed assets detail listing current to provide adequate control over the assets and to ensure accurate reporting at year-end. Furthermore, Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, (the Code) requires each

State agency to make a physical inventory of equipment and other personal property each fiscal year. GAAP Manual Section 3.7 requires this physical count to be “of personal property on hand at the end of the fiscal year.” The agency should make corrections to its detail listing based on the results of the physical inventory. Because the detail listing was not current when the closing package was completed, it seems unlikely that the Department completed a physical inventory.

The Department included \$7,024,032 of costs incurred to construct regional reception and evaluation centers in the June 30, 1998, construction in progress (CIP) balance of \$8,230,458 reported on the General Fixed Assets Summary Form. The project was completed prior to June 30, 1998, but the Department failed to monitor the completion of its capital projects and to reclassify the asset from CIP to buildings. The Department also failed to notify the State Budget and Control Board that the project was complete and to transfer the unexpended balance of \$32,831 of capital improvement bond proceeds to the Bond Contingency Revolving Fund.

The GAAP Manual states on page 5 of Section 3.8: “Sometimes agencies move costs from one general fixed asset category to another. For example, agencies should move Construction in Progress costs to other fixed asset categories when construction projects are substantially complete.” Also, Section 11-9-140 of the Code states, in part, the following:

The State Budget and Control Board may transfer to the Bond Contingency Revolving Fund any capital improvement bond project balances determined to be not usable or needed. ... Before accomplishing a transfer of this type, the required determination must be made by the agency for which the funds were authorized ... and the board must find that the purpose for which the funds were authorized has been achieved.

Recommendations

We recommend that the Department implement procedures to ensure that all future closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. The Department should design and follow procedures to ensure for each closing package the independent comparison of amounts reported to the source records and independent review by someone knowledgeable of GAAP and familiar with the GAAP Manual. Further, the Department should either maintain the holiday and overtime compensatory leave records in OHR or train the field office supervisors to maintain and report accurate leave information. Furthermore, OHR should periodically, review holiday and overtime compensatory leave records for adequacy and reasonableness and for compliance with State laws and regulations for the accumulation and use of these types of leave.

In addition, we recommend that the Department perform the following procedures to ensure the accuracy of its fixed assets records and related closing packages: maintain current detailed fixed asset listings; conduct an annual physical observation of equipment inventory; investigate and resolve differences between the physical inventory, detail listing, and the accounting records; monitor the status of capital projects; reclassify the costs of completed projects from CIP to the appropriate asset category; notify the State Budget and Control Board when capital projects are complete; and transfer unexpended balances of capital improvement bond proceeds for completed projects to the Bond Contingency Revolving Fund.

PAY AND LEAVE TRANSFER AT TERMINATION OF EMPLOYMENT

Termination Pay

We tested the calculations of the final pay of 25 of the 398 permanent employees who terminated employment with the Department in fiscal year 1998. The Department incorrectly computed eight of the tested payments. Such payment errors, as summarized below, indicate a weakness in accounting controls over payroll.

<u>Employee</u>	<u>Correct Pay</u>	<u>Actual Pay</u>	<u>(Overpayment) Underpayment</u>
1	\$ 2,820	\$ 2,890	\$ (70)
2	561	567	(6)
3	127	-	127
4	382	760	(378)
5	1,851	1,780	71
6	2,306	2,326	(20)
7	5,546	5,531	15
8	<u>475</u>	<u>760</u>	<u>(285)</u>
Totals	\$14,068	\$14,614	\$(546)

In addition, the Department discovered that during fiscal years 1998 and 1999, it overpaid numerous employees, most of whom are no longer employed by the Department. Overpayments in fiscal year 1998 which were discovered by the Department totaled \$13,540 to 13 persons, including the \$378 to employee number four in the table above. The Department discovered overpayments in fiscal year 1999 totaling \$19,677 to 24 persons. The 37 overpayments discovered by the Department during the two fiscal years ranged in amounts from \$8 to \$9,687. The primary cause of the overpayments and the underpayments appears to be lack of timely notification to the payroll department by supervisors in field offices regarding actual days worked, last day worked, and annual leave used during the final pay period of Department employment.

When the Department determines that an overpayment has occurred, the payroll department calculates the amount of the overpayment and submits an overpayment form to the Department's Office of Human Resources (OHR). Then OHR sends the individual written notification of the overpayment and asks him/her to contact the payroll department to make repayment arrangements. If the individual is still employed by the Department, the employee's future payroll payments are adjusted until the funds are recouped. The Department has not established a follow-up procedure for instances in which the individual has terminated employment with the Department and does not respond to the Department's initial correspondence. Only one former employee has voluntarily repaid the overpayment.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment.

Leave Transfer

One of the 25 permanent employees in our test of terminated employees transferred to another State agency. Although the employee used annual leave the last day of employment with the Department, the OHR failed to record this leave taken. Consequently, the Department reported to the hiring agency an annual leave balance overstated by 7.5 hours. The error appears to have been caused by the lack of timely notification to the payroll department of the leave used on the final day of employment.

State Human Resources Regulation 19-703.07 (G. 3.) states, "An employee's annual leave credit shall be charged for the actual time (or at a maximum in quarter hour increments) an employee is away from the job." Regulation 19-703.07 (I. 1) requires that all accumulated annual leave be transferred with an employee who transfers from one state agency to another without a break in service.

Recommendations

We recommend that the Department develop and implement procedures to ensure the supervisors of employees who terminate employment promptly report to the payroll department the actual days worked and leave used during the final pay period of employment. The OHR and the payroll department should review for accuracy the information from the field offices prior to paying employees. The Department should pay the individuals who were underpaid and should develop and implement procedures to aggressively pursue collection for all identified overpayments. Furthermore, we recommend that the Department perform an ongoing analysis of incorrect payroll payments and their causes and implement procedures to prevent their recurrence.

We also recommend that the Department strengthen its procedures to ensure that all annual leave used is deducted from the accumulated leave balances of all employees who terminate employment with the Department prior to certifying the unused leave balances to be used in computing payments or to be transferred to the employees' hiring agencies.

TEMPORARY EMPLOYEE HIRE DATE

The Department could not explain why one of the five temporary employees in our test began work and received pay for three days prior to the date of original appointment. State Human Resources Regulations 19-707.02 and 19-707.03 provide that, upon receiving original appointment to an established position, an employee is given one of five status types, in this case "Temporary."

The Department should strengthen its procedures to ensure that employees do not begin work at the Department prior to receiving an original appointment.

RECONCILIATIONS

Except for the month of June 1998, during fiscal year 1998, the Department did not prepare timely reconciliations between the amounts recorded in its accounting records and those in the Statewide Accounting and Reporting System (STARS), the State's official accounting system. A listing of the dates that the Department completed each monthly reconciliation follows:

<u>Month Covered</u>	<u>Date Completed</u>	<u>Month Covered</u>	<u>Date Completed</u>
July 1997	December 3, 1997	January 1998	April 21, 1998
August 1997	December 30, 1997	February 1998	April 28, 1998
September 1997	January 22, 1998	March 1998	May 27, 1998
October 1997	February 11, 1998	April 1998	June 10, 1998
November 1997	February 25, 1998	May 1998	July 12, 1998
December 1997	March 24, 1998	June 1998	July 13, 1998
		July 1998 (Fiscal Month 13)	November 3, 1998

Because the Department did not prepare the reconciliations timely, errors were not detected and corrected timely by the Department in its accounting system and/or in STARS. This indicates a weakness in accounting controls over the Department's general ledger. Failure to timely identify and correct errors may result in incorrect amounts reported on closing packages and included in the State's financial statements.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures Manual (commonly referred to as the STARS Manual) requires that "reconciliations provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS." The STARS Manual also specifies the following about such reconciliations to ensure adequate error detection and to satisfy audit requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

Monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the level of detail in the Appropriation Act. ... Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

We recommend that the Department reconcile its accounting records to the STARS records timely as required by the STARS Manual. Any errors discovered through the reconciliation process should be promptly corrected in the Department's accounting records and/or in STARS as appropriate.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

JOURNAL VOUCHERS

We selected for testing 25 of the 647 journal vouchers processed by the Department during fiscal year 1998. During testing, we noted the following errors and weaknesses in internal control:

1. Seven of the journal vouchers lacked evidence of approval by someone other than the preparer.
2. The Department did not locate one selected journal voucher.
3. Two vouchers lacked attachments of adequate supporting documentation to explain the purposes of the entries.

Although department staff stated that it is not necessary for another employee to review and approve a journal entry proposed by an individual who has authority to approve journal vouchers, we strongly disagree. Effective internal control procedures include the proper authorization of transactions, segregation of duties, and independent checks on performance. Permitting the posting of journal vouchers that lack an independent review and approval by another person increases the possibility that errors or irregularities in the accounting records will occur and go undetected. Also, when journal vouchers and support documentation are missing, an adequate audit trail is lacking and users/reviewers cannot determine the accuracy and reliability of proposed adjustments and recorded entries.

We recommend the Department develop and implement procedures to ensure that all journal entries are adequately supported and each is properly reviewed with the attached supporting documentation explaining the purpose of the entry by an independent authorized person other than the preparer prior to processing in the accounting records.

LUNCH TICKET FEE

The Department sells meal tickets for lunch to adult staff and guests who eat in the Department's dining facilities. Because the Department participates in the National School Lunch Program, each year the South Carolina State Department of Education (DOE) sends notification to the Department's food services division of the minimum price that may be charged for adult lunches. Memorandum #5, dated July 15, 1997, from DOE's Office of School Food Services states that the adult minimum price for the 1997-98 school year will be \$2.15 for adult lunches. It further states, "Higher prices may be established for adult meals but not lower than the minimums indicated."

The Department sold 1,190 tickets during fiscal year 1998. It sold 1,037 tickets for \$2.10, 119 tickets for \$2.05, and 34 tickets at the correct price of \$2.15. The errors occurred because the Department did not disseminate the fee information received from DOE to all dining facilities. Collection of less than the minimum required fee resulted in a loss of revenue to the Department in the amount of \$64.

A similar finding was noted and discussed with the Department during the fiscal year 1996 agreed-upon procedures engagement. (We performed no procedures to the Department's records and internal controls for fiscal year 1997.) Failure to comply with guidelines of the National School Lunch Program could result in the Department's debarment from participation in the program. Therefore, we recommend that the Department develop and implement procedures to ensure that it charges at least the minimum required fee for each adult meal ticket and that it timely increases rates upon DOE notification to lunch program participants.

PERSONNEL RECORDS

The Department maintains all personnel files in unlocked compartments in an unlocked and unattended room. Therefore, unauthorized employees could gain access to sensitive information. Good business practices dictate that the Department store personnel files in a secure area with limited access. The Department issued a purchase order in September 1998 to have locks placed on the compartments housing the personnel files, but the work had not been performed as of the end of our fieldwork in May 1999.

We recommend that the Department place personnel files in a secure area and only permit access to those employees whose job functions require use of the information in the files.

MANAGEMENT'S RESPONSE

State of South Carolina
Department of Juvenile Justice

August 16, 1999

Mr. Thomas L. Wagner, Jr. CPA
State Auditor
South Carolina Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner,

The South Carolina Department of Juvenile Justice has completed its review of the preliminary draft of the State Auditor's agreed-upon procedures report for the fiscal year ended June 30, 1998. We offer the following responses to the findings and the recommendations contained in that report.

GAAP CLOSING PACKAGES

Compensated Absences (Page 6)

We concur with the finding and the recommendation. During May 1998, the Office of Human Resources (OHR) collected compensatory time balances for the purpose of paying staff for accrued compensatory time. Then, OHR requested only the changes between the May balances and balances through the end of June; however, a misinterpretation by some field staff produced inaccurate balances to be reported from the field to OHR. Because of the extended illness of the OHR staff person who generally performs this function, the discrepancies were not detected. For the fiscal year ended June 30, 1999, OHR has collected the compensatory leave balances from the field staff only once and that was through the end of June. In addition for the current fiscal year, new time and attendance forms are being used which will accurately calculate compensatory time and provide proper support documentation for verification of each employee's compensatory leave as required by the GAAP Manual Section 3.17.

Fixed Assets (Page 8)

We concur with the finding and the recommendation. Effective July 1, 1999 (FY99-00) fixed assets purchased by the Department will be added to the fixed asset detail listing the time of purchase. The Fixed Asset Account will be reconciled on a monthly basis and physical audits will be conducted annually by Fiscal Affairs' staff. A Fixed Asset Policy will be issued explaining the initiating, tracking and auditing the Department's Fixed Assets. The Department's Fixed Asset Policy will also include procedures for program staff to follow for construction projects and how to identify building improvements. Additionally, procedures will be established to assure that any unexpended capital improvement bond proceeds will be transferred to the Bond Contingency Revolving Fund.

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Mr. Thomas L. Wagner, State Auditor
South Carolina Office of the State Auditor
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PAY AND LEAVE TRANSFER AT TERMINATION OF EMPLOYMENT

Termination Pay (Page 11)

We concur with the finding and the recommendation. Where overpayments or potential overpayments are caused by late notification from the field, the Office of Human Resources will report such deficiencies to the field office or institution through the appropriate chain of supervision. In addition, staff responsible for reporting leave and terminations will have this job duty added as an essential function on their position description and will be evaluated annually on their performance. Training of Human Resources Liaisons, who perform these functions for the field managers will be increased in the coming year to cover proper procedures and safeguards.

Once the payroll unit is made aware of the overpayment, they will send correspondence to the individual stating the facts concerning the overpayment and requesting repayment. The letter will indicate that a response is required within thirty days. If after thirty days, the Department has not received the repayment, a letter will be prepared for our staff attorney to sign. We will work with our legal office to compose this letter. A copy of the initial (and secondary if necessary) letter will be given to accounts receivable who will notify the payroll unit, OHR and our legal office when the repayment is received. Any further action will be at the advice of our staff attorney.

Leave Transfer (Page 12)

We concur with the finding and the recommendation. Training has taken place on the proper use of leave documents used and the necessity for timely reporting of leave. Effective July 1, 1999, the Department moved to a new automated system which required the need for new leave documents and additional training will take place on the new documents. While the Department has stressed the importance of timely submission of accurate documents indicating the last day worked and any leave taken for terminated employees, we still occasionally receive late leave documentation. When this occurs, we will report such discrepancies to the originator, through the chain of supervision.

TEMPORARY EMPLOYEE HIRE DATE (Page 13)

We concur with the finding and the recommendation. The Office of Human Resources will take greater care in verifying the accuracy of the hire date of the temporary employees.

RECONCILIATIONS (Page 14)

We concur with the finding and the recommendation. Fiscal Affairs has reorganized and permanently assigned three staff members to the Accounts Control Unit to eliminate this situation. The primary duties of the Accounts Control Unit will include the reconciliation of expenditures, cash balances, revenues, composite checking accounts, fixed assets records and reconciliations between agency accounting records and the Comptroller General's records. This configuration should allow for timely reconciliations on a monthly basis and ensure the early detection of errors. Procedures will be established for account adjustments to be made within five days of notification or detection of any errors or needed adjustments.

Mr. Thomas L. Wagner, State Auditor
South Carolina Office of the State Auditor
August 16, 1999
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JOURNAL VOUCHERS (Page 17)

We concur with the finding and the recommendation. Procedures will be established to ensure that all journal entries are reviewed, properly approved and entered into the accounting records. Supporting documentation will be physically attached to the journal entry for review by the person authorized to approve the journal entry and will be maintained on file for review by the auditors. Actual processing of the journal voucher will be performed by an independent authorized person other than the preparer.

LUNCH TICKET FEE (Page 18)

We concur with the finding and the recommendation. The Dietary Program Manager is the Department's point of contact with the Department of Education and is also the individual who receives notification of the established minimum ticket prices for adult lunch meal prices. Upon receipt of such notice, the Dietary Program Manager notifies the Office of Fiscal Affairs so that the minimum (or higher) rate can be implemented. Fiscal Affairs staff will provide written notice to all meal ticket sales agents of any required change in meal ticket prices and monitor sales records and receipts to ensure the revised price is in effect.

PERSONNEL RECORDS (Page 19)

We concur with the finding and the recommendation. Limited space necessitated the co-location of the large reproduction machine used by both the Office of Human Resources (OHR) and the Office of Fiscal Affairs (OFA) and OHR personnel files within the same room. Keys for the file cabinets housing the personnel files have now been received and are being used. Also, an OHR employee now works in the records area, which further adds to security. Other changes, including moving the copier, depend upon the timetable for the relocation of the OHR and OFA.

The Department sincerely appreciates the professional and comprehensive manner in which your staff conducted the examination of the Department's records. As always, the support and assistance provided by the State Auditor's Office is valued and will aid in the Department's continued improvement of our day-to-day operations. The auditor recommendations will serve as a guide in an on-going effort to strengthen internal controls and procedures to enhance accuracy and compliance with applicable laws and regulations.

Sincerely,

Gina E. Wood
Director