

**SOUTH CAROLINA  
DEPARTMENT OF JUVENILE JUSTICE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

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

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April 22, 2016

The Honorable Nikki R. Haley, Governor  
and  
Ms. Sylvia Murray, 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 (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, 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 twenty-five 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 twenty-five selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$3,800 – general fund, \$106,700 – earmarked fund, \$8,700 – restricted fund, and \$22,400 – federal fund) and  $\pm 10$  percent.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$530,300 – general fund, \$89,400 – earmarked fund, \$9,200 – restricted fund, and \$23,400 – federal fund) and  $\pm 10$  percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected payroll transactions for twenty-five selected new employees and twenty-five individuals who terminated employment to determine if the employees were added to 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 current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$530,300 – general fund, \$89,400 – earmarked fund, \$9,200 – restricted fund, and \$23,400 – 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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected twenty-five selected recorded journal entries, two operating transfers, and five appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

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

5. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected eight selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

*Cash Receipts and Revenues*

- We inspected thirty-nine 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 thirty-nine selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

*Non-Payroll Disbursements and Expenditures*

- We inspected fifty-seven 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 fifty-seven selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

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

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from the engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

We found no exceptions as a result of the procedures.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.

The Honorable Nikki R. Haley, Governor  
and  
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April 22, 2016

- Reporting Packages which are submitted less than three business days after the due date unless it is determined that twenty percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

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 South Carolina Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA  
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.

## **REPORTING PACKAGES**

### **Other Payroll Liabilities Reporting Package**

During our testing of the Compensated Absences Report associated with the Other Payroll Liabilities Reporting Package, we noted that the annual leave balances for four employees did not agree to the amounts recorded in SCEIS. Per discussion with Department staff, this was caused by leave taken on or before 6/30/2014 not being submitted and/or approved in SCEIS until after year-end.

The Department's payroll-associated liabilities are understated by approximately \$322.

### **Capital Asset Additions**

During our testing of FY14 capital asset additions associated with the Capital Assets Reporting Package, we noted three transactions, involving a total of five vehicles, in which the sales tax included in the purchase of a new vehicle was not included in the value of the vehicle to be capitalized. This is in violation of the Comptroller General's Policies and Procedures Manual regarding asset basis.

The value of each asset for which sales tax was not included to be capitalized is understated by \$300.

### **Miscellaneous Revenues Reporting Package**

During our testing of the Miscellaneous Revenues Reporting Package, we noted that the amount reported as accounts receivable by the Comptroller General's Office and verified by the Department was overstated \$2,922 from the amount recorded in SCEIS. Also, accounts receivable associated with the Local Effort School District Fund of \$178,533 were not reported on the reporting package.

On the section of the report used to record receivable amounts not recorded in SCEIS, the Department did not deduct the allowance for uncollectible accounts of \$53,050 from the amount reported as current net receivables of \$118,875. Current net receivables were therefore overstated by \$53,050.

The Comptroller General's Policies and Procedures state that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely".

We recommend the Department follow the policies and procedures established by the Comptroller General's Office in order to ensure that the appropriate reporting packages are completed properly using the provided instructions.

## **SECTION B - OTHER WEAKNESS**

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

## **COMPOSITE RESERVOIR BANK ACCOUNT RECONCILIATIONS**

During our testing of FY14 composite reservoir account reconciliations, we noted three of the twelve monthly reconciliations for the Inmate Detention Center Clearing Account were not performed in a timely manner (before the end of the following month). Per discussion with Department staff, the delays were caused by a staff shortage.

Potential errors, had they occurred, would not have been detected in a timely manner. An effective system of internal controls allows for the timely reconciliation of bank accounts.

We recommend the Department establish procedures in order to ensure that reconciliations of composite reservoir accounts are performed in a timely manner.

## **SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Juvenile Justice for the fiscal year ended June 30, 2013, and dated May 7, 2014. We determined that the Department has taken adequate corrective action on the finding noted. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2014, we did not perform tests of the new procedures.

**MANAGEMENT'S RESPONSE**

Management has reviewed the Accountant's Comments and has the following response:

1. We agree with the finding and have put into place an additional layer of review that is completed from the time between the completion of the Other Payroll Liabilities Reporting Package to the Comptroller General's Office and the completion of the Subsequent Events Reporting Package to the Comptroller General's Office allowing the department to report any leave that was taken prior to 6/30 and was not submitted and/or approved in SCEIS until after year-end.
2. We agree with the finding and have put into place an additional layers of review during both the purchase order and invoice processing cycles. The additional layers of review allow us to verify that all associated costs that should be included in the basis of the asset being acquired are included as in accordance with the Comptroller General's Policies and Procedures Manual.
3. We agree with the finding and for fiscal year 2014, the requirements and format related to the Miscellaneous Revenues Reporting Package changed which led to mishandling by staff in completing the package in accordance with Comptroller General's Office Reporting Policies and Procedures Manual. Going forward the department has put into place additional analytical procedures to verify all amounts are included and at any amounts that would be net of any allowances as in accordance with the Comptroller General's Policies and Procedures Manual.
4. We agree with the finding and have put into place additional cross training of staff as well as ability to retrieve the necessary information to complete reconciliations of composite reservoir accounts in a timely manner as outlined as part of an effective system of internal control.

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.