

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
PETTY CASH AUTHORIZATION	7
REPORTING PACKAGES	7
SECTION B - OTHER WEAKNESSES	9
PAYROLL TRANSACTIONS	10
JOURNAL ENTRY DOCUMENTATION	10
SECTION C - STATUS OF PRIOR FINDING	11
MANAGEMENT'S RESPONSE	12



State of South Carolina
Office of the State Auditor

1401 Main Street, Suite 1200
Columbia, S.C. 29201
(803) 253-4160
FAX (803) 343-0723

GEORGE L. KENNEDY, III, CPA
STATE AUDITOR

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 22, 2015

The Honorable Nikki R. Haley, Governor
and
Mr. Bryan P. Stirling, 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, 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 (\$2,900 – general fund, \$340,400 – earmarked fund, \$11,200 – restricted fund, and \$23,200 – 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 (\$1,682,700 – general fund, \$387,500 – earmarked fund, \$9,600 – restricted fund, and \$29,700 – federal fund) and ± 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 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 (\$1,682,700 – general fund, \$387,500 – earmarked fund, \$9,600 – restricted fund, and \$29,700 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected twenty-five selected recorded journal entries, eight operating transfers, and one appropriation transfer 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 journal entry and operating transfer transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Journal Entry Documentation in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected twelve 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 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 the same 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 obtained all monthly reconciliations prepared by the Department.

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 the same twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **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 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 and Petty Cash Authorization 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 our engagement for the fiscal year ended June 30, 2013 to determine if the Department had taken corrective action.

Our finding as a result of these procedures is presented in Payroll Transactions in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Mr. Bryan P. Stirling, Director
South Carolina Department of Corrections
September 22, 2015

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-Up 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 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 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 management of the South Carolina Department of Corrections 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.

PETTY CASH AUTHORIZATION

During our review of the Cash and Investments Reporting Package, we noted differences between the reported authorized balance and Department records for some petty cash accounts. In addition the Department could not provide the State Auditor authorization for one account.

Section 20 of the Comptroller General's Disbursement Regulations specifies that agencies must obtain State Auditor approval for the establishment of all petty cash funds.

We recommend the Department implement control procedures to ensure that it receives approval from the Office of the State Auditor. In addition the Department should periodically evaluate its petty cash funds to ensure that the funds are still necessary.

REPORTING PACKAGES

We tested the Department's 2014 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following exceptions were noted:

- A spreadsheet formula error was identified while tracing amounts reported on the Inventory Reporting Package to the supporting documentation. The formula error created an understatement of approximately \$500 in the reported inventory balance.
- We tested twenty-five employees from the Department's Compensated Absences Report and identified leave balance discrepancies for three of the employees tested. Two of the leave balance errors were the result of untimely leave submissions which overstated the liability by more than \$100. The other leave balance error was the result of untimely input of working hours into SCEIS which understated the liability by more than \$100.

- The Department's Subsequent Events Questionnaire understated accounts payables by approximately \$700 because it misidentified certain transactions during the completion of the questionnaire.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "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 implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

SECTION B - OTHER WEAKNESSES

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

PAYROLL TRANSACTIONS

The Department's Agreed Upon Procedures Report for the fiscal year ended June 30, 2013 included a finding titled "New Employees" which reported an error in the calculation of an employee paycheck.

Our testing of twenty-five terminated employees revealed two underpayments of over \$100 each in the calculation of the employees' final paychecks. Both errors related to the pay calculations associated with overtime hours worked in their final pay period.

Effective internal controls require safeguards to ensure that transactions are properly reviewed and approved to ensure proper payment.

We recommend the Department strengthen its policies and procedures over payroll expenditures to ensure that proper payments are made for wages earned.

JOURNAL ENTRY DOCUMENTATION

The Department could not provide sufficient documentation to support or document approval for one of twenty-five journal entries tested. The Department explained that the transaction was initiated externally by SCEIS staff and the Department was not provided supporting documentation or a request for agency approval.

Effective internal controls include controls to ensure that only authorized transactions are processed and that transactions are adequately supported by source documentation.

We recommend the Department implement procedures to ensure that all accounting transactions processed through its accounting system are supported by source documentation and approved by Department personnel.

SECTION C - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2013, and dated April 22, 2014. The prior year report included a finding titled New Employees. A similar discrepancy was identified during the current year's engagement and is described in section B of this report under the finding titled Payroll Transactions.

MANAGEMENT'S RESPONSE

**MANAGEMENT RESONSE TO THE AGREED-UPON PROCEDURES AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

PETTY CASH AUTHORIZATION

The Department of Corrections will implement control procedures to ensure it receives approval for new petty cash accounts from the Office of the State Auditor. We will also request approval for the account which was created in a previous fiscal year, which authorization could not be provided for.

REPORTING PACKAGES

The Department has implemented additional procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

PAYROLL TRANSACTIONS

During the audit process, the finding was presented and reviewed by the Division of Human Resources. It was determined that the final pay for two employees was not properly calculated for the pay period in which they left the Agency. Immediate steps were taken to compensate the employees for wages due. On September 3, 2015, the Department of Administration notified the Department of Corrections that employee's final pay was being calculated correctly by the payroll system based upon their FLSA workweek. Therefore, manual calculations are no longer necessary for employees leaving the Agency.

JOURNAL ENTRY DOCUMENTATION

The Department will implement analytical procedures focused on identifying transactions made by statewide accountants during the closeout of the fiscal year. As the transactions are identified, they will be reviewed to determine if they contain adequate source and agency approval documentation.

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.