

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed – Upon Procedures

For the Year Ended June 30, 2016



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

May 1, 2017

The Honorable Henry McMaster, Governor
and
Mr. Bryan P. Stirling, Director
South Carolina Department of Corrections
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Corrections for the fiscal year ended June 30, 2016, was issued by WebsterRogers, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
Columbia, South Carolina

June 30, 2016

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. George L. Kennedy, III, CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Corrections and the South Carolina Office of the State Auditor (the OSA), solely to assist you in evaluating the performance of the South Carolina Department of Corrections (the Department) for the fiscal year ended June 30, 2016, 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.

Our procedures and findings are as follows:

Analytical Review

1. We compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to budget and those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure the revenue was classified properly in the agency's accounting records. The scope was variations over the lesser of \$100,000 or 10% of non-appropriation revenues.

No additional procedures were performed with respect to management's representations regarding the variances that exceeded the scope amounts indicated in procedure one above. We found no exceptions as a result of this procedure.

2. We compared the current year non-payroll expenditures at the subfund and account level to budget and those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds. We obtained and documented an understanding of variations over the lesser of \$1,000,000 or 10% of total non-payroll expenditures.

No additional procedures were performed with respect to management's representations regarding the variances that exceeded the scope amounts indicated in procedure two above. We found no exceptions as a result of this procedure.

3. We compared the 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. We obtained and documented an understanding of variations over the lesser of \$1,000,000 or 10% of total payroll expenditures.

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No additional procedures were performed with respect to management's representations regarding the variances that exceeded the scope amounts indicated in procedure three above. We found no exceptions as a result of this procedure.

4. We compared the percentage change in personal service expenditures to the percentage change in employer contributions. We obtained explanations of changes of plus or minus 10%.

No additional procedures were performed with respect to management's representations regarding the variances that exceeded the scope amounts indicated in procedure four above. We found no exceptions as a result of this procedure.

5. We computed the percentage distributions of fringe benefit expenditures by fund source and compared it to the actual distribution of recorded payroll expenditures by fund source. We investigated differences of plus or minus 10% to ensure that payroll expenditures were classified properly in the Department's accounting records.

No additional procedures were performed with respect to management's representations regarding the variances that exceeded the scope amounts indicated in procedure five above. We found no exceptions as a result of this procedure.

6. We determined compliance with the South Carolina Code of Laws Title 2, Chapter 79, State Agency Deficit Prevention and Recognition, if applicable, based on fiscal year end results per financial statements provided by Department management.

We found no exceptions as a result of this procedure.

Cash Receipts and Revenues

7. We selected a sample of 25 recorded receipts. For the selected receipts, we obtained and inspected supporting documentation to determine if:

- These receipts were properly described and classified in the accounting records in accordance with Department policies and procedures and State regulations;
- These receipts were recorded in the proper fiscal year;
- The collection and retention of these receipts were properly authorized.

The individual receipt transactions selected for testing were chosen haphazardly. We found no exceptions as a result of these procedures.

Cash Disbursements

8. We selected a sample of 25 recorded non-payroll disbursements and inspected supporting documentation to determine if:

- These disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations;
- These disbursements were properly approved and, if applicable, supported by documentation of the procurement process in accordance with applicable State laws and regulations;
- These disbursements were paid in accordance with State laws and regulations;
- These disbursements were recorded in the proper fiscal year.

The individual non-payroll disbursement transactions selected for testing were chosen haphazardly. We found no exceptions as a result of these procedures.

9. We selected a sample of 25 regular payroll disbursements and inspected supporting documentation to determine if:

- These selected payroll disbursements were properly described, classified, and distributed in the accounting records;
- The payees were bona fide employees;

- The gross pay was supported by time records, salary authorizations, or other documentation contained in the employee's personnel records;
- These payroll disbursements were properly authorized and in accordance with existing legal requirements;
- These payroll disbursements were processed according to the Department's policies and procedures and State regulations.

The individual payroll disbursement transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.

10. We selected a sample of 25 payroll disbursements for inmates employed in the Department's Division of Prison Industries programs and inspected supporting documentation to determine if:

- These selected payroll disbursements were properly described, classified, and distributed in the accounting records;
- The payee was a valid inmate;
- The gross pay was supported by time or production records;
- The withholdings were made in accordance with applicable guidelines for items such as room and board, child support, restitution, victim's compensation fund, taxes, or purchase of incidentals;
- The payroll disbursements were properly authorized and in accordance with existing legal requirements;
- The payroll disbursements were processed in accordance with the Department's policies and procedures, and State regulations.

The individual payroll disbursement transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.

Composite Reservoir Accounts

11. We obtained from the OSA a listing of the Department's composite reservoir accounts and confirmed with the Department's management that the listing is complete.

We found no exceptions as a result of this procedure.

12. We obtained the fiscal year monthly reconciliations for each composite reservoir account, and for 10% of the monthly reconciliations, we performed the following procedures:

- We determined the selected reconciliations were timely performed and properly documented in accordance with State regulations and that the reconciliations were mathematically correct;
- We compared the applicable amounts from the selected reconciliations to the corresponding amounts recorded in the general ledger to determine they agree;
- We compared the applicable amounts from the selected reconciliations to the corresponding amounts on the State Treasurer's Office monthly reports to determine they agree;
- We determined if reconciling differences were adequately explained and properly resolved;
- We determined adjusting entries, if necessary, were made in the accounting records;
- We requested reconciliations of applicable composite reservoir account balances to the liability for assets held in custody for others to determine if the reconciliations were mathematically accurate;
- We compared the reconciled balance of the liability for assets held in custody for others per the reconciliation with the balance recorded in the general ledger to determine if they agree.

The individual monthly reconciliations were chosen haphazardly. We found no exceptions as a result of these procedures.

13. We inspected 25 composite reservoir account cash receipts to determine they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year.

The individual receipt transactions selected for testing were chosen haphazardly. We found no exceptions as a result of these procedures.

14. We determined if revenue collection and retention or remittance was supported by law.

We found no exceptions as a result of this procedure.

15. We inspected 25 composite reservoir account cash disbursements to determine if these cash disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations, and that the goods and/or services were procured in accordance with applicable State laws and regulations.

The cash disbursement transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.

Inventory

16. We obtained the detail inventory reports as of June 30, 2016, for items held for sale. We performed the following procedures on the detail inventory reports:

- We compared the inventory cost on the detail inventory reports to the amount recorded in the general ledger to determine they agree;
- We obtained the physical inventory count documentation. From this documentation, we selected five individual items. For the five items selected, we compared the quantity per the inventory count documentation to the quantity per the final inventory detail report to determine they agree;
- For the five items selected, we compared the cost per the final inventory report to the cost on the underlying supporting documentation to determine they agree.

The individual inventory items selected for testing were chosen haphazardly. We found no exceptions as a result of these procedures.

Payroll

17. We selected 25 of the employees hired during the year ended June 30, 2016, based on sample sizes agreed to by the Department and the OSA. For the employees selected, we determined if they were added to the Department's payroll in accordance with Department policies and procedures and that their first paycheck was properly calculated in accordance with applicable State laws.

The individual payroll transactions selected for testing were chosen randomly. Our finding, as a result of these procedures, is reported in Section A of the Accountants' Comment section of this report.

18. We selected 25 of the employees who terminated employment during the year ended June 30, 2016, based on sample sizes agreed to by the Department and the OSA. For the employees selected, we determined if they were removed from the Department's payroll in accordance with Department policies and procedures and that their final paycheck was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State laws.

The individual payroll transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.

Journal Entries, Operating Transfers and Appropriation Transfers

19. We selected 10 non-recurring journal entries and 10 transfers (operating and appropriation) for the year ended June 30, 2016, and determined if the selected transactions were:

- Properly described and classified in the accounting records;
- Properly supported by documentation, including the purpose of the transaction;
- Properly approved;
- Mathematically correct;
- Processed in accordance with the Department's policies and procedures and State regulations;
- Posted during normal business hours.

The individual journal entry, operating transfer, and appropriation transfer transactions were chosen haphazardly. We found no exceptions as a result of these procedures.

Appropriation Act

20. We completed the Appropriation Act work program for the year ended June 30, 2016, provided by the OSA and noted areas of noncompliance, if any.

We found no exceptions as a result of this procedure.

21. We obtained Department-specific state provisos and determined compliance through inquiry and observation of Department personnel.

No additional procedures were performed with respect to management's responses to our inquiries. We found no exceptions as a result of this procedure.

Reporting Packages

22. We obtained copies of the reporting packages for the year ended June 30, 2016, submitted to the Office of the State Comptroller General.

- We inspected these reporting packages to determine if they were prepared in accordance with the Comptroller General's *GAAP Reporting Packages Manual* requirements;
- We compared the amounts reported in the reporting packages with the amounts in the supporting workpapers and accounting records to determine if they agree.

We found no exceptions as a result of these procedures.

Schedule of Expenditures of Federal Awards

23. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2016, as submitted to the OSA.

- We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions;
- We compared the amounts reported on the schedule of federal financial assistance with the amounts reported on the supporting workpapers and in the accounting records to determine if they agree.

We found no exceptions as a result of these procedures.

Status of Prior Findings

24. We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on the Department for the year ended June 30, 2015, to determine if the Department had taken corrective action.

Our finding as a result of this procedure is reported in Section B of the Accountants' Comments section of this report.

We were not engaged to and did not conduct an examination, 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, the management of the South Carolina Department of Corrections, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Webster Rogues LLP in black ink.

Columbia, South Carolina
May 1, 2017

ACCOUNTANTS' 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.

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Condition:

During our testing of 25 employees hired during the year ended June 30, 2016, we noted one employee whose first check was not properly calculated in accordance with applicable state law.

Cause:

The Department did not correctly enter the authorized salary rate in SCEIS when the individual was rehired.

Effect:

The employee was underpaid by \$32.71 on her first paycheck.

Criteria:

South Carolina law requires state employees to be paid in accordance with authorized pay rates.

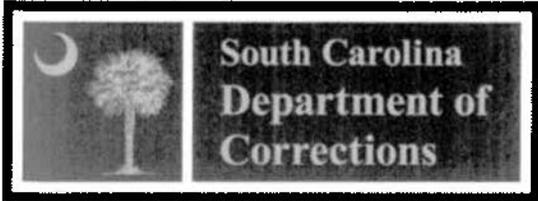
Recommendation:

We recommend the Department have a second individual independently review the input of initial payroll information and rates to ensure the entered information agrees with the source documents. Any errors identified should be corrected promptly.

Section B – Status of Prior Findings

During the current year engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of our report on the Department for the fiscal year ended June 30, 2015, and dated June 13, 2016. We determined that the Department has taken corrective action on this finding.

MANAGEMENT'S RESPONSE



HENRY McMASTER, Governor

BRYAN P. STIRLING, Director

May 7, 2017

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

Dear Mr. Kennedy:

The South Carolina Department of Corrections has reviewed the preliminary draft of the Independent Accountants' Report on Applying Agreed - Upon Procedures to the Department's accounting records for the fiscal year ended June 30, 2016.

We have provided our response to the findings in the Accountants' Comments Section of the attached report. You are hereby authorized to release the report.

We would like to commend the staff of WebsterRogers, LLP, for the professional manner in which they conducted this audit.

Sincerely,

A handwritten signature in black ink that reads "Bryan P. Stirling". The signature is written in a cursive style with a large, looping final flourish.

Bryan P. Stirling
Director

BPS:pjm

Attachment

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

PAYROLL

During the audit process, the finding was presented and reviewed by the Division of Human Resources. It was determined that the first check for one employee was not properly calculated due to their salary being keyed incorrectly in the system. The pay rate was corrected within a week of the underpayment and the employee received their back pay on their next paycheck. We agree with the Auditor's recommendation and will work to implement these procedures.