SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

AGREED UPON PROCEDURES REPORT

JUNE 30, 2010

State of South Carolina

Office of the State Auditor

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COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
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June 21, 2011

The Honorable Nikki R. Haley, Governor
and
Mr. William R. Byars, Jr., 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, 2010, 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy 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 specified parties), solely to assist you in evaluating the performance of the South Carolina Department of Corrections (the Department) for the fiscal year ended June 30, 2010, 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:

1 **Cash Receipts and Revenues**

- We inspected twenty-five recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected twenty-five 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 of South Carolina's (the State) accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. Effective May 3, 2010, the Department implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of prior year. We investigated changes in the earmarked, restricted, and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels of $3,700 in the general fund, $300,000 in the earmarked fund, $11,000 in the restricted fund, and $140,000 in the federal funds and ± ten percent.

The individual transactions prior to the Department implementing SCEIS were chosen randomly. The individual transactions selected after the Department implemented SCEIS were chosen judgmentally. Our findings as a result of these procedures are presented in Section A of the Accountants' Comments section of this report under the "Deposits" heading.

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2 **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five recorded non-payroll disbursements 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, 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 recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. Effective May 3, 2010, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure the expenditures were properly classified in the Department's accounting records. The scope was based on agreed upon materiality levels of $1,300,000 for the general fund, $300,000 for the earmarked fund, $9,700 for the restricted fund, and $150,000 for the federal funds and ± ten percent.

The individual transactions prior to the Department implementing SCEIS were chosen randomly. The individual transactions selected after the Department implemented SCEIS were chosen judgmentally. Our finding as a result of these procedures is presented in Section B of the Accountants' Comments section of this report under the "Variance Explanations" heading.

3 **Payroll Disbursements and Expenditures**

- We inspected twenty-five payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for five new employees and five who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department's policies and procedures, that the employee's first and/or last pay check was properly calculated, and that the employees leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. Effective May 3, 2010, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels of $1,300,000 for the general fund, $300,000 for the earmarked fund, $9,700 for the restricted fund, and $150,000 for the federal fund and ± ten percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed 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 $\pm$ five percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

The individual transactions were chosen randomly. Our finding as a result of these procedures is presented in Section B of the Accountants' Comments section of this report under the "Variance Explanations" heading.

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

- We inspected ten recorded journal entries, all operating transfers, and all 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 transaction was documented and explained, the transactions was properly approved, and were mathematically correct; and the transactions were processed in accordance with the Department's policies and procedures and State regulations.

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

5 **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Department's policies and procedures and State regulations.

The transactions were chosen randomly. We found no exceptions as a result of our procedures.

6 **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2010, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to 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. Effective May 3, 2010, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department and reconciliations to STARS accounts were no longer performed.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Section A of the Accountants' Comments section of this report under the "Reconciliations" heading.

7 **Appropriation Act**

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

We found no exceptions as a result of the procedures.

8 **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, 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 <u>GAAP Closing Procedures Manual</u> requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Section A of the Accountants' Comments section of this report under the "Closing Packages" heading.

9 **SCEIS Implementation**

- We compared cash, revenue, and expenditure account closing balances from the Department's legacy system to opening balances input into SCEIS to ensure the Department carried forward the proper account balances to SCEIS.

We found no exceptions as a result of our procedures.

10 **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from their engagement for the fiscal year ended June 30, 2008, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009.

Our findings as a result of these procedures are presented in Section B of the Accountants' Comments section of this report under the "Closing Packages – Capital Assets", "Deposits", "Reconciliations", and "Employer Contributions" headings.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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.

Webster Rogers LLP

Columbia, South Carolina
June 16, 2011

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 Department 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.

CLOSING PACKAGES

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages. To accurately report the State's assets, liabilities, and current year operations, the GAAP closing package must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. The following describes the errors noted on the capital asset 2010 closing package:

Capital Assets

As was noted in both the fiscal year 2010 and fiscal year 2008 Agreed-upon Procedures Report, the Department reported year-end capital asset balances for the general fund capital assets that did not agree with the Department's records. For fiscal year 2010 there was a $476,846 difference noted between the amount recorded in SCEIS and the amount recorded in the Department's closing package.

We recommend that the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP manual requirements and instructions. The procedures should include an independent review of each closing package by an individual knowledgeable of the closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package.

DEPOSITS

We tested twenty-five receipt transactions and found one receipt was not timely deposited. As was noted in the fiscal year 2008 Agreed-upon Procedures Report, the Department had five receipts that were not timely deposited.

Section 89.1 of the 2010 Appropriation Act states that all general state revenues derived from taxations, license, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source or activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State.

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

RECONCILIATIONS

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

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

We reviewed bank account reconciliations for the E.H. Cooper Trust Funds account, Canteen Fund account and the Prison Industries account. We noted the following:

- The November 2009 and December 2009 account reconciliations for the Prison Industries bank account were not timely reconciled. Both accounts were reconciled in April 2010.
- The reconciliations for the E.H. Cooper Trust Fund accounts were not timely reviewed for the months November 2009 through June 2010.
- The reconciliations for the Canteen Fund account were not timely reviewed for November 2009 through March 2010, May 2010, and June 2010.
- The reconciliations for the Prison Industries account were not timely reviewed for July 2009 through June 2010.

It was noted in the fiscal year 2008 Agreed-upon Procedures Report certain reconciliations were not performed or reviewed timely.

We recommend the Department perform and review monthly reconciliations on a timely basis.

EMPLOYER CONTRIBUTIONS

As was noted in both the fiscal year 2010 and fiscal year 2008 Agreed-upon Procedures Reports, the Department did not pay a proportionate share of employer contributions from the earmarked, restricted and federal funds. The Department could not explain why the employer contributions were not allocated proportionately between funds.

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

We recommend the Department establish the procedures to ensure employer contributions are distributed proportionately among its funds.

SECTION B – OTHER WEAKNESSES

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

VARIANCE EXPLANATIONS

We compared current year and prior year balances for revenues, non-payroll expenditures, and payroll expenditures and investigated variances meeting a defined scope, including inquiring of Department management to obtain explanations for certain variances. Department management was unable to provide explanations for all non-payroll and payroll expenditure variances.

Consistent review of variance reports by management will help ensure accurate account classification. It will also assist in identifying potential improper or unauthorized expenditure transactions.

We recommend that management monitor variance reports throughout the fiscal year and be able to explain significant variances based on expectations derived from budget practices and prior year events and conditions.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on findings reported in the Accountant's Comment section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2008, and dated November 20, 2009. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009. We have repeated Capital Assets under "Closing Packages", Employer Contributions, Reconciliations and Deposits again as findings in Section A of the Accountants' Comment Section of this report.

MANAGEMENT’S RESPONSE

South Carolina
Department of
Corrections

NIKKI R. HALEY, Governor
WILLIAM R. BYARS, JR., Director

July 20, 2011

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

We have completed our review of the preliminary draft of the report resulting from the performance of the agreed-upon procedures to the accounting records for the fiscal year ended June 30, 2010, by WebsterRogers, LLP.

We have provided our comments to each of 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 engagement.

Sincerely,

Robert E. Ward
Acting Director

REW:mr

Attachment

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MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

1. **CAPITAL SSETS**

   SCDC disagrees with the auditor's finding. According to the Comptroller General's Office the State Auditors Office identified certain errors in the amounts recorded in SCEIS on a State wide level. Reconciliations were done by the SCEIS team, the Comptroller Generals office and SCDC in April of 2011, prior to this audit, to adjust the SCEIS records to reflect the correct year end figures.

2. **DEPOSITS**

   SCDC agrees with the auditor's finding. We have established written policies and procedures for the timely deposit of cash receipts. Additionally, the requirements and procedures are also taught in the Fiscal Management Quarterly Staff Training Workshops. We will again emphasize to the SCDC staff the need for timely deposit of cash receipts.

3. **RECONCILIATIONS**

   SCDC agrees with the auditor's finding. While we have experienced turnover in staff and staff shortages the accounts were reconciled and reviewed as soon as staff was available. We will in the future ensure that all reconciliations are completed, reviewed and approved in writing to include the preparation date and both the preparer and reviewers signatures in the month following the receipt of the bank statements.

4. **EMPLOYER CONTRIBUTIONS**

   SCDC agrees with the auditor's finding. In part, Federal ARRA funds were used for payroll in FY10, however no fringe was allocated from those funds as required by Section 8-11-194 of the South Carolina Code of Laws. We will ensure that compliance with the requirements are met in the future by implementing procedures to ensure that adjusting entries necessary to distribute employer contributions proportionately among its funds are made in a timely manner.

SECTION B – OTHER WEAKNESSES

VARIANCE EXPLANATIONS

Due to the timing of the audit at fiscal year end, staff shortages within the Division of Finance and the short amount of time allowed for responses, we were unable to provide all explanations in the time allowed. We will work toward reviews of variance reports throughout the fiscal year to assist in identifying potential improper or unauthorized expenditures transactions and to be able to more readily explain variances for future audits.

MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION C – STATUS OF PRIOR FINDINGS

SCDC continually strives to correct all deficiencies noted during each audit as soon as they are reported. In some instances, however, findings are unknowingly repeated due to the timing of the audits. The FY 2008 fiscal year audit was not completed until January of FY2010 resulting in some of the deficiencies noted being repeated in FY2010.