

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed – Upon Procedures

For the Year Ended June 30, 2013

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

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

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May 16, 2014

The Honorable Nikki R. Haley, 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, 2013, 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 black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
Columbia, South Carolina

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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, solely to assist you in evaluating the performance of the South Carolina Department of Corrections (the Department) for the fiscal year ended June 30, 2013, 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 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 Department's accounting records. The scope was based on agreed upon materiality levels of \$2,100 in the general fund, \$360,000 in the earmarked fund, \$10,000 in the restricted fund, and \$29,000 in the federal funds and \pm ten percent.

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

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.

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2. Non-Payroll Disbursements and Expenditures (Continued)

- We inspected twenty-five 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 the expenditures were properly classified in the Department's accounting records. The scope was based on agreed upon materiality levels of \$1,500,000 for the general fund, \$300,000 for the earmarked fund, \$9,000 for the restricted fund, and \$32,000 for the federal funds and \pm ten percent.

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

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 payroll transactions for twenty-five new employees and twenty-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 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 Department's accounting records. The scope was based on agreed upon materiality levels of \$1,500,000 for the general fund, \$300,000 for the earmarked fund, \$9,000 for the restricted fund, and \$32,000 for the federal fund and \pm 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 our procedures, is presented in Section A of the Accountants' Comments section of this report under the "New Employees" heading.

4. Journal Entries, Operating Transfers, and Appropriation Transfers

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

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

6. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013, and inspected 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 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 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 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 non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

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 our procedures.

8. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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.

We found no exceptions as a result of our procedures.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, 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 and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of our procedures.

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, 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.



Columbia, South Carolina
April 22, 2014

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.

NEW EMPLOYEES

Condition:

During our testing of twenty-five newly hired employees, we noted one employee had been underpaid by approximately \$57.

Cause:

Management informed us the reason for the underpayment was due to entering an incorrect work schedule rule in the payroll module of SCEIS.

Effect:

Employee not properly compensated for work performed.

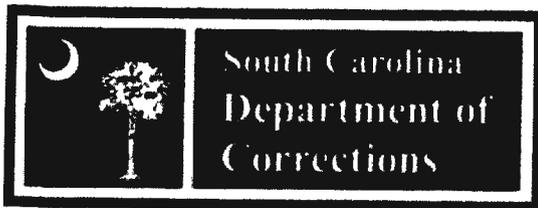
Criteria:

Section 8 Chapter 11 of the South Carolina Code of Laws governs employee compensation and withholdings. Chapter 11 requires all payments and withholdings be properly authorized.

Recommendation:

We recommend the initial set-up of an employee be closely reviewed prior to calculating the first pay check.

MANAGEMENT'S RESPONSE



NIKKI R. HALEY, Governor
BRYAN P. STIRLING, Director

May 19, 2014

Agency Mail Services

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, 2013, by WebsterRogers, LLP.

We have provided our response to the finding 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, sweeping "S" at the end.

Bryan P. Stirling

BPS:mlr

Attachment

MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

3. SCDC agrees with the auditor's finding. During the audit process, the finding was presented to and reviewed by the Division of Human Resources. It was determined that the Work Schedule Rule (WSR) for the new hire was incorrectly changed to a WSR other than Monday through Friday by the Institutional Human Resources Manager, which resulted in the employee being underpaid. Immediate steps were taken to resolve the finding by correcting the WSR for the affected employee, which resulted in the employee receiving back pay on the next scheduled payday. To prevent this type of error from occurring in the future, the Division of Human Resources has communicated with and reminded the Institutional Human Resources Managers that the WSR for a new hire must be a Monday through Friday schedule to ensure correct/accurate payment to the new hire on their first pay check.