

**SOUTH CAROLINA
CRIMINAL JUSTICE ACADEMY
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2012

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 14, 2014

The Honorable Nikki R. Haley, Governor
and
Council Members
South Carolina Criminal Justice Academy
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Criminal Justice Academy (the Academy), solely to assist you in evaluating the performance of the Academy for the fiscal year ended June 30, 2012, in the areas addressed. The Academy'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 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 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 earmarked 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 (\$900 – general fund, \$68,100 – earmarked fund, and \$9,800 – federal fund) and ± 10 percent.

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- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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

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

- We inspected 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 Academy, 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 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 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 (\$14,200 – general fund, \$81,600 – earmarked fund, and \$9,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Academy Store and General Ledger Account Coding in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected 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; 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 selected new employees and those 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 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 (\$14,200 – general fund, \$81,600 – earmarked fund, and \$9,200 – federal fund) and ± 10 percent.

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- 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 ± 5 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 Employee Termination Process in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, operating transfers, and 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. **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 and agency specific provisos.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, prepared by the Academy 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 finding as a result of these procedures is presented in Reporting Package in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, prepared by the Academy 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.

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8. **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 South Carolina Criminal Justice Academy resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the Agency had taken corrective action. We applied no procedures to the Academy's accounting records and internal controls for the years ended June 30, 2011, 2010 and 2009.

Our finding as a result of these procedures is presented in General Ledger Account Coding in the Accountant's Comments section of this report.

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 governing body and management of South Carolina Criminal Justice Academy and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy 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.

DEPOSITS

During our test of revenues, we found several cash receipts were not deposited in a timely manner. Two cash receipts received July 1, 2011 were not deposited until July 15, 2011 and five cash receipts received July 13th and 14th were not deposited until July 25, 2011. Section 89.1 of the FY2011-12 Appropriation Act states that all revenues must be remitted to the State Treasurer (deposited) at least once a week.

We recommend that the Academy implement procedures to ensure that deposits are made in a timely manner in accordance with state law.

ACADEMY STORE

During our test of disbursements, we identified several issues with the Academy Store. When the store purchases merchandise for resale, although the vendor does not charge sales tax, the Academy adds use tax during the purchase order process, which is incorporated into the cost of inventory. The recorded use tax is remitted to the Department of Revenue separately from the sales taxes collected in the store. As a result, the Academy is unnecessarily paying use tax on items it is holding for resale.

When merchandise is sold, sales tax is collected. The Academy is inappropriately classifying all revenue as Sale of Goods, rather than separately recording the collected sales tax in a sales tax liability account. In addition, when the taxes are remitted monthly, the payment is classified as Sales Taxes Paid rather than as a deduction of a Sales Tax Liability account.

The store clerk transfers sales information from the point of purchase system into SCEIS on a daily basis. SCEIS initiates internal entries to remove the goods from inventory and record cost of goods sold. The entries to record cost of goods sold are being classified as Office Supplies, rather than Inventory-Cost of Goods Sold, Purchase Resale-Consumer Goods, or other similar account.

Inventory and Cost of Goods Sold are being accounted for in Subfund 3356, while associated revenues are accounted for in Subfund 3805. We tested one Sales and Use Tax return for the store and found that the sales receipts were added incorrectly, resulting in a small overpayment of sales taxes.

A strong system of internal controls requires safeguards to ensure that transactions are properly recorded. The Comptroller General's Office has established policies and procedures for classification of revenues and expenditures.

We recommend that the Academy assess the existing design of accounting for the store function. We also recommend that the Academy strengthen its internal controls over the recording of financial transactions, and implement policies and/or procedures to ensure that store activity is accounted for properly in accordance with state regulations and good business practices.

GENERAL LEDGER ACCOUNT CODING

During our test of disbursements we noted that the Academy was assessed estimated sales taxes, penalty, and interest for not filing a sales tax return for the period of May 2011. A return was not prepared from Academy records to determine the accuracy of the assessment. Instead, the total amount of the assessment was paid in September 2011, and was incorrectly coded to Sales Tax Paid. The total amount should have been allocated between Sales Tax Payable, Fees and Fines, and Interest Expense – Late. In addition, since the amount was not paid when due during the 2011 fiscal year, the expenditure is not recorded in the proper year.

A strong system of internal controls requires safeguards to ensure that transactions are properly recorded. Also, the Comptroller General's Office has provided a detailed chart of account classifications and descriptions for SCEIS general ledger accounts.

We recommend that the Academy strengthen its controls over sales tax return preparation as well as expenditure coding to ensure that the classification of expenditures and sales tax remittances are accurate.

EMPLOYEE TERMINATION PROCESS

The Academy did not appropriately handle leave without pay and subsequent retirement of one employee. The employee's paid leave was exhausted and the employee should have been placed on leave without pay. In addition the Academy did not process the employee's termination paperwork correctly in SCEIS, resulting in the employee receiving pay for three additional pay periods. The Academy maintained inadequate records of the employee's available leave, so when the employee was billed for the overpayment, the amount billed was insufficient. The employee reimbursed the Academy approximately \$5,000, the total amount billed, during FY2011 and FY2012. However, approximately \$320 was not billed by the Academy and therefore was not recovered.

During the employee's time on leave without pay prior to retirement, the employee remained covered under some insurance programs and the employee paid the cost. In addition, because of a mathematical error in billing, there was a small underpayment by the employee which was paid by the Academy. Based on agency documentation we determined that the employee should have been terminated in FY2011, but because of the many changes in the termination date, as well as the delay in collecting the reimbursement from the employee, there was activity which kept the employee active on the payroll files into FY2012.

The SC Code of Laws states:

Section 8-11-30. Payment or receipt of salary which is not due. (A) It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas. (B) A person who violates the provisions of this section is guilty of a misdemeanor and, upon conviction, must be fined not more than five thousand dollars or imprisoned not more than three years, or both.

The South Carolina Human Resources Regulations states:

Section 19-701.02 Statements of Policy. L. An agency shall maintain documentation appropriate for administration of these Regulations.”
Section 19-712.02 Other Leave Records. A. The agency shall maintain all leave records for each employee eligible for such leave. Such records must include the number of leave hours used during the current calendar year.

We recommend that the Academy implement procedures to ensure that all leave and terminations are correctly entered in SCEIS, and that the agency improves its controls over these functions.

REPORTING PACKAGE

During our review of the Academy’s reporting packages, we found two errors on the Master Reporting Checklist. The Academy responded that it does not collect and deposit revenues from non-State parties for Charges for Services and/or Commodities, and responded that no amounts were owed to it. We determined, based upon the procedures performed, that both responses were incorrect.

The Comptroller General’s Office provides agencies with detailed instructions along with each reporting package that should be closely followed to prevent errors and ensure accurate reporting.

We recommend that the Academy follow the policies and procedures established by the Comptroller General's Office and thoroughly review each reporting package to ensure that it is accurately completed.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Criminal Justice Academy for the fiscal year ended June 30, 2008, and dated October 7, 2008. We applied no procedures to the Academy's accounting records and internal controls for the years ended June 30, 2011, 2010 and 2009. We determined that the Academy has taken adequate corrective action on each of the findings except for the following: Object Code. A similar finding is repeated in General Ledger Account Coding.

MANAGEMENT'S RESPONSE



South Carolina Criminal Justice Academy

February 18, 2014

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

Dear Mr. Gilbert:

In response to your letter dated February 3, 2014, enclosed please find our response to your report resulting from the agreed-upon procedures to the accounting records of the South Carolina Criminal Justice Academy for the fiscal year ended June 30, 2012. In addition, please consider this letter to be my authorization to release the report.

Corrective action being taken by Academy staff:

- Deposits: The Academy now has an employee dedicated to performing the accounts receivable function and will be making deposits daily as funds are received.
- Academy Store: The Academy has put procedures in place to confirm that taxes will be properly processed for items purchased and sold by the store.
- General Ledger Account Coding: The staff will verify codes to ensure the proper ones are used.
- Employee Termination Process: The Academy has created a tracking sheet for leave and pay for employees who are terminating to prevent a recurrence of this.
- Reporting Package: The staff will analyze the procedures to make sure the proper responses are recorded in the package.

On behalf of the Academy staff, I want to thank your office for their time and assistance to help ensure the accuracy of expenditures, revenue and reporting of the Agency's funds. Enclosed is a current copy of SC CJA Council Members. If you have any questions, please call me at (803) 896-7907.

Sincerely,


Hubert F. Harrell
Director

Enclosure: List of CJA Council Members

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