

**SOUTH CAROLINA
DEPARTMENT OF JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 30, 2018

Mr. Freddie Pough, Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Juvenile Justice (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the management of the South Carolina Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed – Upon Procedures – South Carolina Department of Juvenile Justice (N12)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$5,000 and 10% for the General Fund, \$100,000 and 10% for the Earmarked Fund, \$10,000 and 10% for the Restricted Fund, and \$25,000 and 10% for the Federal Fund.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$600,000 and 10% for the General Fund, \$100,000 and 10% for the Earmarked Fund, \$10,000 and 10% for the Restricted Fund, and \$25,000 and 10% for the Federal Fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$600,000 and 10% for the General Fund, \$100,000 and 10% for the Earmarked Fund, \$10,000 and 10% for the Restricted Fund, and \$25,000 and 10% for the Federal Fund.

Payroll (Continued)

8. Randomly select twenty-five employee payments and inspect supporting documentation during the fiscal year to:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
 - Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
9. Randomly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
10. Randomly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Randomly select twenty employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.
13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries

14. Randomly select twenty-five journal entries for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of all fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect all reporting packages and related items and:
 - Determine if preparation was in accordance with Comptroller General Office requirements.
 - Determine if amounts reported in the reporting package agree with the supporting workpapers and accounting records.
 - Haphazardly select five capital assets and three low value assets from current year acquisitions and determine if the assets were properly coded and classified in the accounting system.
 - Haphazardly select three capital asset retirements and determine if that amounts were properly coded and classified in the accounting system.
 - Determine if the proper approvals were obtained when engaging attorneys on a fee basis.

Findings

Asset Acquisitions and Disposals

For one capital asset and one low value asset inspected, the amount recorded as the basis was understated due to related taxes and/or freight charges being expensed instead of being included in the basis of the asset. For one of the disposals inspected, supporting documentation was not adequate to explain the method of disposal.

Operating Leases Reporting Package

As corrective action on the finding reported in the prior year, the Department did report its contingent rental payments. However, the amount reported was overstated by approximately \$1,800 due to certain transactions miscoded as contingent rental payments in the accounting system. In addition, similar to the finding reported in the prior year, several calculation discrepancies were noted in the reported future minimum lease payments of operating leases.

Fund Balance Reporting Package

As corrective action on the finding reported in the prior year, change support forms were completed as required by the reporting package instructions. However, two Department funds were inadvertently omitted from the reporting package.

Management's Response

We acknowledge and hereby agree with these findings. Please note a corrective action plan has been identified for each of the items listed in this section of the report and we are currently in the process of implementing reporting package changes in procedure.

Composite Reservoir Accounts

18. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
19. Obtain fiscal year monthly reconciliations for each composite reservoir account and for four haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
 - Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.

Composite Reservoir Accounts (Continued)

- 20. Inspect twenty haphazardly selected composite reservoir account receipts to determine that 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, and that any retention or remittance of revenue is supported by law.
- 21. Inspect twenty haphazardly selected composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

School District

- 22. Inquire of management regarding any investigation, audit or review associated with the Department’s school district which was ongoing or completed during the fiscal year. Inspect reports of any completed investigation, audit or review associated with the Department’s school district.
- 23. Obtain a trial balance of the Department’s school district for the current and prior fiscal year. Haphazardly select ten balances from the trial balances and inspect supporting documentation to determine that the balance is properly recorded and/or described and classified on the trial balance.
- 24. Compare current year school district trial balance account balances to those of the prior year. Obtain and document an understanding of variations over \$350,000 and 10%.
- 25. Inspect budget allocations for the previous five years to determine consistent budgeting to support the Department’s school district.
- 26. Compare school district total revenues to total expenditures for the current year and each of the previous four fiscal years and obtain an explanation from management for any year in which the school district expenditures exceeded revenues.
- 27. Through inquiry with management, determine and document Department reserves/funding to maintain school district operations if an emergency or budget shortfall should occur.

We found no exceptions as a result of the procedures. The procedures, and related inquiries with management, reveal that for the five year period ended June 30, 2017 the Department utilized funds from other programmatic areas (as allowed by State Proviso) to fund, on average, approximately \$900,000, or 12%, of school district expense each fiscal year.

The following table summarizes the five year comparison from the applicable trial balances obtained from the Department.

Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Revenues	\$ 7,286,186	\$ 6,589,342	\$7,005,747	\$7,138,372	\$7,229,538
Total Expenditures	<u>8,740,264</u>	<u>7,879,301</u>	<u>7,941,302</u>	<u>7,823,601</u>	<u>7,476,075</u>
Expenditures in Excess of Revenues	\$ <u>(1,454,078)</u>	\$ <u>(1,289,959)</u>	\$ <u>(935,555)</u>	\$ <u>(685,229)</u>	\$ <u>(246,537)</u>

Internal Audit Reports

28. We will inspect the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our procedures.

Status of Prior Findings

29. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on each of the findings, except where identified in the findings above.