

**SOUTH CAROLINA
DEPARTMENT OF CORRECTIONS
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 30, 2019

Mr. Bryan P. Stirling, Director
South Carolina Department of Corrections
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 Corrections (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. 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:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Corrections 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 Corrections (N04)**

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 from management an understanding of variations over \$15,000 and 10% for General Funds, \$400,000 and 10% for Earmarked Funds, \$20,000 and 10% for Restricted Funds, \$30,000 and 10% for Federal Funds, and \$5,000 and 10% for Other Funds.
2. Haphazardly select twenty cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification 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.
 - 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

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 and 10% for General Funds, \$425,000 and 10% for Earmarked Funds, \$175,000 and 10% for Restricted Funds, and \$150,000 and 10% for Federal Funds.
4. Randomly select twenty 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.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for Fiscal Year 2018 and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 and 10% for General Funds, \$425,000 and 10% for Earmarked Funds, \$175,000 and 10% for Restricted Funds, and \$150,000 and 10% for Federal Funds.
7. 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 greater than 10%.
8. 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 greater than 10%.
9. Select twenty employee payments (randomly select the employee, haphazardly select the payment) and inspect supporting documentation 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.
10. Randomly select fifteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with Department 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.
11. Randomly select fifteen employees hired during the fiscal year to determine if they were added to the payroll in accordance with Department policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

12. Haphazardly select ten bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

13. Select twenty inmate payments (randomly select the payee, haphazardly select the payment) to inspect 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.

Findings:

Inmate Payments

Similar to the finding reported in the prior year, supporting documentation discrepancies were encountered with four of the twenty inmate payments inspected. The discrepancies included missing or unsigned timesheets and/or missing pay rate approvals.

Bonus Pay

Two of the ten selected bonus pay disbursements were paid to employees whose total bonus payments received during the fiscal year exceeded \$3,000.

Terminations

Of the fifteen terminated employees selected, we found the following:

- One employee selected was terminated in November, 2017, but SCEIS was not updated to reflect the termination until April, 2018.
- One employee selected was overpaid approximately \$1,250 due to untimely updates to SCEIS.

Management's Response:

With the frequent turnover in plant managers, all documentation needed is not always available. We plan to draft inmate pay procedures to distribute to the plants so when a new manager comes on board they are aware of what is expected.

Bonus Pay

Two employees exceeded the \$3,000 limit for bonuses. Both were overpaid by \$250.00. SCEIS does not track bonus payments to ensure that employees do not exceed the \$3,000 limit. Procedures will be implemented to ensure compliance with the established bonus limit.

Payroll (Continued)

Management's Response:

Terminations

Untimely termination in SCEIS – A request for termination was made on November 6, 2017 but was not forwarded to Human Resources until March 27, 2018 via letter to terminate for job abandonment effective March 21, 2018.

Overpayment due to untimely termination in SCEIS – An employee's leave without pay for the pay period 04/02/2018 – 04/16/2018 was keyed into the system on May 3, 2018, and the last day to key for that pay period was May 1, 2018. The late keying of the leave without pay created an overpayment with the employee separated effective May 8, 2018.

Journal Entries and Transfers

14. Haphazardly select ten journal entries and five transfers 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.

Reporting Packages

15. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

16. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Other Receivables Reporting Package

Haphazardly select three other receivables to determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and/or Department prepared records. Recalculate reported amounts to determine accuracy.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting - Inventory report and/or Department prepared records.

Reporting Packages (Continued)

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select three prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

Haphazardly select and inspect five capital asset acquisitions and five capital asset retirements. Determine if the acquisitions were properly coded and classified in the Department's records and conform with appropriate useful lives for depreciation, and that amounts calculated for depreciation were correct. Determine that asset retirements were disposed of in accordance with applicable State regulations.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment from each of the remaining rental payment classifications (One time or unusual in nature rental payments, PO Box Rentals, Month to month rentals, and Payments for supplies); (3) Five haphazardly selected Future Minimum Lease Payments; and (4) All future rental payments to be received for property leased to others.

- Accounts Payable Reporting Package

Haphazardly select five accounts payable transactions reported to determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor and/or Department prepared records.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding:

Future minimum lease payments reported on the Operating Leases Reporting Package were understated by approximately \$200,000 due to a reporting error associated with one of the five leases selected for inspection.

Reporting Packages (Continued)

Management's Response:

The provisions of the lease agreement, legal verbiage and the timing of the execution of the agreement caused the incorrect calculations. This year, we will seek the advice of our General Counsel group for better legal interpretation of our agreements.

Composite Reservoir Accounts

17. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
18. Obtain fiscal year monthly reconciliations for each composite reservoir account and for each of the composite reservoir accounts select one reconciliation and perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, 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.
19. Haphazardly select and inspect ten composite reservoir account receipts for the composite accounts to determine that they were properly described and classified in the accounting records in accordance with Department 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.
20. Haphazardly select and inspect ten composite reservoir account disbursements for the composite accounts to determine if these disbursements were properly described and classified in the accounting records in accordance with Department 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.

Finding:

Department procedure did not require the documenting of dates or reviews on the monthly bank reconciliations, therefore timely performance and review of some bank reconciliations could not be confirmed.

Management's Response:

We have implemented additional procedures through the review process that will confirm timely performance by the bank reconciler.

Internal Audit Reports

21. Inspect the Department's internal audit reports beginning after the date of the prior year agreed upon procedures report through the end of our fieldwork to determine impact on our agreed upon procedures.

Internal audits of the Department identified several Department locations that had not documented the performance of an inventory of tagged items. Otherwise, we found no other matters related to our procedures.

Permanent Improvements

22. Inspect the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Department and confirm that the Department is in compliance.

We found no other matters related to our procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

23. Select all (three) controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Appropriation Act

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

We found no exceptions as a result of the procedures except as it relates to findings identified by the Department as referenced in the Internal Audit Reports section above.

Accounting Policies and Procedures

26. Obtain and inspect the accounting policies and procedures of the Department, including the Department's bank accounts and Prison Industries, to confirm that the Department has written policies and procedures.

We found no exceptions as a result of the procedures.

Palmetto Unified School District

27. Inquire of management regarding any investigation, audit or review associated with the 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.
28. Obtain the Department's fiscal year 2018 school district financial schedules submitted through the South Carolina Department of Education (SCDE) online system. Agree the account balances on the schedules to SCEIS and haphazardly select ten of the balances and inspect supporting documentation to determine that the balance is properly recorded and/or described and classified on the schedule.

Palmetto Unified School District (Continued)

29. Compare current year school district financial schedule balances to those of the prior year. Obtain and document an understanding of variations over \$350,000 and 10%.
30. Inspect budget allocations for the previous five years to determine consistent budgeting to support the Department's school district.
31. Inspect the total fund balance on the school district financial schedule of the current year and each of the previous four fiscal years and obtain an explanation from management for any year in which the total school district expenditures exceeded total revenues.
32. 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.

Status of Prior Finding

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

The finding reported in the prior year engagement is repeated as described in the Inmate Payments finding above.