

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2019**



## Independent Accountant's Report on Applying Agreed-Upon Procedures

June 8, 2020

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, 2019. 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 fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following: Earmarked Fund: General Ledger (GL) Account 4890060000; Restricted Fund: GL Account 4890080000 (fund 49730538); Federal Fund: GL Account 4280020000; and Composite Fund: GL Accounts 4660010000 and 4660010002 for fund 69000007.

We found no exceptions as a result of the procedures.

**Cash Disbursements/Non-Payroll Expenditures**

2. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 and 10% – General Fund, \$400,000 and 10% - Earmarked Fund, \$175,000 and 10% - Restricted Fund, and \$150,000 and 10% - Federal Fund.

We found no exceptions as a result of the procedures.

**Payroll**

3. Compare current year payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations over \$2,000,000 and 10% - General Fund, \$400,000 and 10% - Earmarked Fund, \$175,000 and 10% - Restricted Fund, and \$150,000 and 10% - Federal Fund.
4. 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%.
5. 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% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
6. Haphazardly select five 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.
7. Haphazardly select five 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.

## **Payroll (Continued)**

8. Haphazardly select five bonus pay disbursements to determine:
  - The employee does not make more than \$100,000 annually.
  - The bonuses received during the year did not exceed \$3,000.
  - The payment amount agreed to supporting documentation and the bonus was given for proper reason in accordance with Department policy.
  - The bonus pay was approved by the appropriate supervisor.

## **Finding**

Similar to the finding reported in the prior year, one of the five selected bonus pay disbursements was paid to an employee whose total bonus payments received during the fiscal year exceeded \$3,000. In addition, a retention bonus payment was made subsequent to the last paycheck of one of the terminated employees selected.

## **Management's Response**

- Part of the \$3,000 that was paid to this employee during FY19 was for a \$1,000 sales bonus that was paid on July 3, 2018 for his sales during the period between October 2017 and December 2017. This bonus should have been paid during FY18, however, the request for payment was dated May 14, 2018.
- The retention bonus payment represented a Medical Sign-On bonus that the Agency was offering during a time of increased need for medial positions and the burden of trying to compete with regional private hospitals. The Agency was obligated to pay the bonus based on signed recruiting documentation.

## **Journal Entries and Transfers**

9. Haphazardly select eight journal entries and two 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**

10. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
11. 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.

## Reporting Packages (Continued)

- Grants and Contributions Revenue Reporting Package

Haphazardly select five grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue.

- 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.

- 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.

- Operating Leases Reporting Package

Agree applicable effective dates and future minimum lease payments on the Future Minimum Lease Payment Schedule to the prior year Schedule. For new operating leases reported, determine if the current expense, and future minimum lease payments were accurately reported based on inspection of invoices and lease agreements. Haphazardly select ten leases and confirm a copy of the lease was properly submitted to the CG in accordance with the reporting package instructions.

- Litigation Reporting Package

Haphazardly select five transactions from the SCEIS Yearend Reporting – Litigation Expense report to determine if charges are properly coded and approved.

- 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.

## Findings

**Prepaid Expenses Reporting Package** – Prepaid expense balances, properly reported in the prepaid expense columns of the reporting package, were also inadvertently reported as current year expense, resulting in overstatements in the current year expense and total columns of the reporting package.

**Litigation Payments** – One of the litigation payments inspected included payment for the services of an attorney not yet approved by the Attorney General and for the services of an approved attorney whose hourly rate exceeded the approved rate.

## Reporting Packages (Continued)

### Findings (Continued)

**Subsequent Events** – The Department indicated that there were no late submissions of leave identified, but late submissions of leave existed in the system when the Subsequent Events Questionnaire was submitted.

### Management's Response

- Due to the Prepaid Expense Closing Package format being changed, our review process overlooked the new column placement.
- Upon investigation, the SC Attorney General Form 1 authorization was prepared only for the lead attorney and not staff. Once the Accounts Payable team questioned the invoices, the Agency prepared and submitted amended Form 1 authorizations for the attorney's staff.
- There were five instances of leave that were delayed past the Fiscal Year ending 2019. These have been reconciled and accounted for during FY20. Additional procedures will be implemented during our "Subsequent Events Closing Package" search during the FY20 CAFR process.

### Composite Reservoir Accounts

12. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
13. Obtain five haphazardly selected monthly reconciliations from all composite reservoir account reconciliations 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.
14. Haphazardly select and inspect ten 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.
15. Haphazardly select and inspect nine 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.

## **Assets and Personal Property**

16. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
17. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and that the asset was properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
18. Confirm compliance with South Carolina Code of Laws 10-1-140 through inquiry, observation and/or inspection of the Department's annual personal property inventory documentation.
19. Confirm proper monitoring and reporting of the Department's permanent improvement activity through inspection of the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Department, and management inquiry.

## **Finding**

The Department was unable to provide adequate documentation to support two of the five capital asset retirements selected for inspection.

## **Management's Response**

- After a thorough search of our Fixed Asset files, we could not find supporting documentation to provide to the engagement team. During this current fiscal year, we have replaced the prior incumbent with new staff that has taken control of the fixed asset paperwork, reorganized and started periodic fixed asset inventory taking within our institutions.

## **Governance, Risk and Compliance (GRC) SCEIS Module**

20. Inspect the SCEIS GRC system to identify any new controls since the prior year inspection of this system. Confirm with management that any new controls identified are operating as designed.

We found no exceptions as a result of the procedures.

## **Appropriation Act / Department-Specific Provisos**

21. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the Appropriation Act.
22. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

## **Palmetto Unified School District**

23. 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.
24. Obtain the Department's fiscal year 2019 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 five of the balances and inspect supporting documentation to determine that the balance is properly recorded and/or described and classified on the schedule.
25. 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%.
26. Inspect budget allocations for the current year and the prior year to determine consistent budgeting to support the Department's school district.
27. Compare school district total revenues to total expenditures for the fiscal year and obtain an explanation from management if the total school district expenditures exceeded total revenues.
28. 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 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 the findings, except as reported in the Payroll finding above. Additionally, through procedures performed in a separate statewide audit, it was determined that corrective action is ongoing for the Inmate Payments finding reported in the prior year.