

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

July 14, 2000

(803) 253-4160
FAX (803) 343-0723

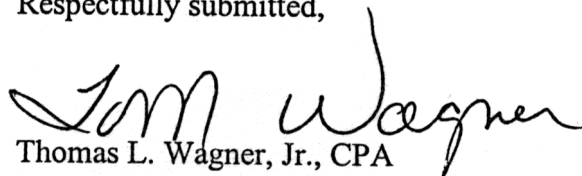
THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

The Honorable James H. Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Juvenile Justice for the fiscal year ended June 30, 1999, was issued by Scott McElveen, L.L.P., 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,


Thomas L. Wagner, Jr., CPA
State Auditor

South Carolina Department of Juvenile Justice

Columbia, South Carolina

Report on Agreed-Upon Procedures

for the year ended June 30, 1999

Contents

Independent Accountants' Report on Applying Agreed-Upon Procedures.....	1-4
Accountants' Comments	5-18
Status of Prior Findings	19
Management's Response.....	20

Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA,
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 Juvenile Justice (the "Department") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected receipt vouchers to determine if these receipts were properly recorded, described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if the recorded revenues were in agreement. 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 from sources other than State General Fund appropriation to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. We reviewed refunds of expenditure transactions in our testing of receipts to determine if refunds were a result of duplicate payments of vendor invoices. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comments 1 and 2 of the Accountants' Comments section of this report.

2. We tested selected non-payroll disbursements to determine if these disbursements were properly recorded, described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in STARS as reflected on the Comptroller General's reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comment 2 of the Accountants' Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in STARS as reflected on the Comptroller General's reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in recorded employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented as Comment 3 in the Accountants' Comments section of this report.
4. We tested selected 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries, operating transfers and appropriation transfers selected for testing were chosen randomly. Our findings as a result of these procedures are presented as Comment 4 in the Accountants' Comments section of this report.

5. We tested 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if the reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented as Comment 5 in the Accountants' Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our findings as a result of these procedures are presented as Comments 2, 4 and 5 in the Accountants' Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998, to determine if adequate corrective action had been taken. Our findings as a result of these procedures are presented in the Status of Prior Findings section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comment 6 of the Accountants' Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comment 7 of the Accountants' Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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 South Carolina Office of the State Auditor, and the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
June 23, 2000

Accountants' Comments

Accountants' Comments

We noted the following matters during our engagement:

1. Receipts

A. DEPOSIT SLIP

We noted in 1 of our 25 cash receipts test selections that the receipt package did not have a bank deposit slip or an agency's deposit slip.

Adequate accounting controls require the creation and retention of supporting documentation of accounting transactions.

We recommend that the Department implement procedures to ensure that a deposit slip is attached to each receipt package.

B. TRACING TO THE GENERAL LEDGER

We noted in 1 of our 25 test selections that a receipt could not be traced to the Department's general ledger.

Department policy requires that all cash receipts be entered into the general ledger.

We recommend that the employee who records the receipt in the general ledger review the recorded transaction for accuracy. We also recommend that the employee indicate on the receipts package that the transaction was recorded and reviewed.

C. RECEIPTS LOG

The Department's policy is to keep a receipts log with pre-numbered receipts. Also, when employees use a receipt number, they are required to sign out the receipt on the log. They are also required to write the amount and description of the receipt.

We noted in our testing of receipts that the Department is not maintaining a complete log of cash receipts. The log was not pre-numbered as policy requires. Instead, employees listed the receipt voucher numbers in the log as vouchers were checked out. As a result, receipt voucher numbers were skipped in the log and later written in as void. Employees sometimes sign out several receipts at one time and then use them as needed. Occasionally the employees do not use the receipts that have been checked out. Also, the employees do not always return to the log to write in the description and amounts of the transactions.

We recommend that the Department pre-number the receipts log to correspond to the pre-numbered receipts vouchers. We also recommend employees be required to sign and date the receipts log and indicate the description and amount of the receipt.

2. Non-Payroll Disbursements

A. VOUCHER CANCELLATION

In 24 of our 25 selections in our test of non-payroll disbursements, the disbursement voucher was not cancelled to prevent re-entry and duplicate payment. In addition, we found in 10 of our 25 selections that the supporting documentation was not canceled to prevent duplicate payment.

Effective internal controls over disbursements require that disbursement vouchers and supporting documentation be properly canceled.

We recommend that vouchers, invoices and supporting documentation be stamped paid. We also recommend that the Department take measures to ensure that personnel understand the importance of canceling paid vouchers and supporting documentation. We further recommend that the disbursement vouchers be reviewed by appropriate Department personnel prior to filing to ensure vouchers and supporting documentation are properly canceled.

B. VOUCHER COPIES

We noted in our testing of non-payroll disbursements that the original disbursement vouchers and the Department's file copy of disbursement vouchers are both white in color. Based on our experience at other agencies, multi-color copies of disbursement vouchers are used to avoid confusion and prevent inadvertent duplicate payments of vouchers.

We recommend that the Department consider using a system of multi-color copies of disbursement vouchers whereby each color is consistently used for a different purpose. Such a system would strengthen controls over the Department's disbursement system.

C. VOUCHER SUPPORTING DOCUMENTATION

We noted in 3 of our 25 test selections that disbursement vouchers did not have supporting documentation. One of the vouchers was deleted because it had previously been paid. Two of the vouchers were deleted because there were corrections necessary before they could be resubmitted to the Comptroller General's Office for processing and payment. The supporting documentation was transferred to the vouchers that were resubmitted.

Section 2.1.3.10 and 2.1.3.12 of the STARS Manual require that all STARS input forms be supported by adequate documentation.

We recommend that the reason for the deletion and a cross-reference to the replacement voucher be documented on the voucher which is cancelled/deleted.

D. CLERICAL ACCURACY OF VOUCHERS

We noted in 1 of our 25 test selections that there was no evidence that the agency verified the mathematical accuracy of the voucher.

Effective internal controls over disbursements require that the mathematical accuracy of vouchers be verified.

We recommend that the Department implement procedures to ensure that the clerical accuracy of each voucher is verified and clearly indicate on the voucher package that this step has been completed.

E. INVOICE RECEIPT DATE

We noted in 1 of our 25 test selections that an invoice was not stamped indicating the date the invoice was received.

Effective internal controls over disbursements require that invoices be stamped to document the date it is received. In addition, Section 11-35-45 of the 1976 South Carolina Codes of Laws and STARS Manual Section 4.2.20.10 require that vouchers be submitted to the State Comptroller General for payment within 30 work days from acceptance of the goods/services and proper invoice. Without documentation of the dates of receipt of both the goods/services and the vendor's invoice, it is not possible to determine if invoices are timely processed for payment.

We recommend the Department implement procedures to ensure that all invoices are stamped indicating the receipt date.

F. INVOICE DATE AND INVOICE NUMBER

We noted in 3 of our 25 test selections that the invoice date differed between the invoice and the invoice inquiry printed from the Department's accounting system. We also noted in 1 of our 25 selections that the invoice number differed between the invoice and the invoice inquiry printed from the Department's accounting system.

Effective internal controls over disbursements require that original invoice data agree with the information input into the accounting system to prevent accounting and disbursement errors.

We recommend that the Department implement procedures to ensure that data entered into the accounting system agrees with source documentation.

G. PURCHASE ORDER

We noted in 1 of our 25 test selections that the receiving copy of the purchase order was not signed indicating that the goods or services were received by the Department.

Effective internal controls over disbursements require that purchase orders be signed when the goods or services are received. Without documentation of the dates of receipt of both goods/services and the invoice, it is not possible to determine if invoices are timely processed for payment.

We recommend that the Department implement procedures to ensure that all purchase orders be signed by appropriate personnel when goods or services are received.

H. DUPLICATE VOUCHER PAYMENTS

In reviewing the Department's refunds of expenditure transactions in our procedures for testing receipts, we noted 36 instances in which vendors made refunds to the Department for duplicate payments by the Department of vendor invoices. These duplicate payments occurred because invoices were processed twice. We could not determine how many duplicate payments may have occurred that vendors did not refund to the Department.

Proper internal controls should be developed and implemented to prevent duplicate payments.

We recommend that accounting procedures and controls be implemented for disbursements to ensure that duplicate payments do not occur, including matching purchase orders, receiving reports and invoices before creating a disbursement voucher. We also recommend that invoices be entered character specific to ensure that the accounting system can identify duplicate entries.

I. FEDERAL GRANT DISBURSEMENT

In our testing of 25 non-payroll disbursements, we selected 1 federal grant disbursement to test. We noted that a request for grant disbursement was submitted by the Department four months after the grant period had expired for goods that were purchased after the grant period had ended. The Department issued a voucher for the disbursement five months after the grant period had ended. The federal grantor did not reimburse the Department for this payment made after the grant period had ended.

The grant documentation states that the final request for payment must be submitted by the Department no later than 30 days after the end of the grant period.

We recommend that the Department implement procedures to ensure compliance with the terms and conditions of the federal grant including not issuing vouchers for grant disbursements requested more than 30 days after the grant period has expired. We also recommend the Department follow-up on outstanding purchase orders for federal grant transactions when the receiving report has not been received to ensure transactions occur within the grant period or purchase orders are cancelled when goods/services are not received before the end of the grant period.

3. Payroll Disbursements

A. NEW HIRE DATE

We noted in 1 of our 10 test selections of payroll transactions for new hires that the hire date on the Department's payroll reports did not agree with the employee's personnel file.

Effective internal controls over payroll require that information in the Department's payroll system and personnel files be accurate and agree with information in employee files.

We recommend that the Department implement procedures to ensure that information from source documents is entered correctly into the Department's payroll system. We further recommend that the information be independently reviewed and agreed to the source documentation.

B. SALARY CHANGE AUTHORIZATION

We noted in 16 of our 25 payroll test selections that changes to employees' salaries were not properly authorized by proper Department officials.

Effective internal controls over payroll require that changes to employees' salaries be authorized by appropriate Department officials.

We recommend that the Department implement procedures to ensure that all changes in payroll be reviewed and properly authorized by the appropriate Department officials. We also recommend that agency procedures prohibit the payroll accountant from processing any salary/wage rate changes without evidence of proper authorization of the change.

C. EMPLOYEE AUTHORIZATIONS

We noted in 1 of our 21 selections of salaried employees in our test of 25 payroll transactions that the voluntary deduction form was not signed by the employee.

The Department's policy requires that all employees properly authorize withholdings and deductions.

We recommend the Department implement procedures to ensure that voluntary deduction forms are properly signed by employees prior to including the forms in employee personnel files. We also recommend that agency procedures prohibit the payroll accountant from processing any voluntary deduction forms without evidence of proper authorization by the employee.

D. TERMINATION PAY

In our test of employees who terminated their employment with the Department, we noted in 1 of our 10 selections that the hours worked in the final period for the employee was incorrect. We also noted in 1 of our 10 selections that the rate of pay used in the final pay for the employee was incorrect. A similar finding was noted in the prior year's report on applying agreed-upon procedures.

An effective accounting system includes control procedures that prevent the incorrect payment to employees. In addition, the Code of Laws Section 8-11-30 prohibits the receipt of salary from the State which is not due and prohibits State employees to issue vouchers, checks, or otherwise pay salaries or monies that are not due to State employees.

We recommend that the Department implement procedures to ensure that the final pay for employees who have terminated their employment is calculated correctly, and, further, that the correct payment amount is input into the system. We also recommend that all computations for termination pay be independently reviewed and information used in the calculations, including pay rate, hours worked, and unused leave, be agreed to the appropriate source documentation.

E. OBJECT CODES

We noted in 20 of our 21 selections of salaried employees in our test of 25 payroll transactions that the Employee Profile from the State Budget and Control Board's Office of Human Resource Management lacked information regarding object codes. Therefore, we could not agree the object code as provided by the Office of Human Resources to the payroll warrant register.

Effective internal controls over payroll require that information included in the payroll warrant register agree with information included in employee personnel files.

We recommend that the Department implement review procedures to ensure that information in personnel files is complete and accurate so that it agrees with information included in the Comptroller General's payroll warrant register.

4. Journal Entries, Operating Transfers and Appropriation Transfers

A. MISSING DOCUMENTS AND INADEQUATE SUPPORT

In our testing of journal entries, appropriation transfers and interdepartmental transfers, we noted the following exceptions:

- A. Of our selection of 15 journal entry vouchers, 1 could not be located by the agency and 1 did not include adequate supporting documentation.
- B. Of our selection of 10 appropriation transfers, 9 did not include adequate supporting documentation.
- C. Of our selection of 14 interdepartmental transfers, 1 could not be located by the agency and 1 did not include adequate supporting documentation.

Department policy requires that all transaction documents and their support be properly filed and maintained for future reference. In addition, Section 2.1.3.10 of the STARS Manual requires that all STARS Input Forms submitted for processing have adequate supporting documentation.

We recommend that the agency implement procedures to ensure that complete and adequate supporting documentation for all transaction documents is properly filed with or its location cross-referenced on the transaction document to be readily retrievable. Further, we recommend that a sign-out system, in which documents are signed out when removed, be implemented to eliminate missing documents.

B. SEGREGATION OF DUTIES

We noted in 2 of our 14 selections tested that journal entries were prepared, approved, and entered into the accounting system by the same employee. A similar finding was noted in the prior year's report on applying agreed-upon procedures.

Effective internal controls over journal entries require separation of duties including separate signatures for the preparer, approver, and keyer.

We recommend that different employees prepare and enter journal entries into the accounting system. We also recommend that the journal entries be independently reviewed and approved by a responsible agency official that did not prepare or enter the journal entry.

C. APPROVAL OF INTERDEPARTMENTAL TRANSFERS

We noted that 1 of our 13 selections of interdepartmental transfers tested did not have a signature indicating approval of the transfer.

Section 2.1.3.72 of the STARS Manual requires that the interdepartmental transfer form be signed by an authorized agency official.

We recommend that a responsible agency official sign the interdepartmental transfer form authorizing the transfer.

D. GENERAL LEDGER SYSTEM

The Department provided a list of journal voucher, appropriation transfer and interdepartmental transfer document numbers used during the year. From the list of document numbers we selected 15 journal vouchers, 10 appropriation transfers and 14 interdepartmental documents to test. We noted in 3 of our 15 test selections that journal vouchers could not be traced to the Department's general ledger. We also noted in all of our 10 selections that appropriation transfers, including short-term inter-agency loans, could not be traced to the general ledger. We further noted in 4 of our 14 selections that interdepartmental transfers could not be traced to the general ledger. We were unable to determine if these transactions were accurately posted to the accounting system.

An effective accounting system requires that all accounting transactions be properly recorded in the Department's general ledger.

We recommend that the Department implement procedures to ensure that transactions are properly posted to the accounting system by account number, date, and document number.

E. NUMERICAL SEQUENCE OF APPROPRIATION AND INTERDEPARTMENTAL TRANSFERS

During our testing of the General Ledger and Books of Original Entry, we scanned all the appropriation transfers and interdepartmental transfers for numerical sequencing. We noted that 9 appropriation transfers relating to the sale of the Department's assets were not numbered. Additionally, we found interdepartmental transfers that were not within our population of interdepartmental transfers tested. Of these interdepartmental transfers found, none were numbered sequentially.

Department policy requires that all document series be numerically sequenced.

We recommend that the Department implement procedures to ensure that all document series are numbered sequentially.

5. Monthly Reconciliations

In performing our procedures on monthly reconciliations of cash, revenues, and expenditures, we noted that the reconciliations were not complete for the entire 1999 fiscal year.

Section 2.1.7.20.c of the STARS Manual requires monthly reconciliations for cash, revenues, and expenditures be performed at the level of detail in the Appropriation Act to facilitate error detection and correction. Proper reconciliation of cash, revenue, and expenditure balances in the Department's accounting records and those in the State's accounting system (STARS) requires that certain procedures be followed.

We recommend that these procedures be implemented to ensure that the monthly reconciliations be properly and timely performed and carefully reviewed by an appropriate agency official (other than the preparer). Further, we recommend that the preparation and review of the reconciliations be properly documented.

6. Closing Packages

A. OPERATING LEASES

- A. During our testing of the Operating Lease Closing Package we were told that the preparers of the closing package were not provided with the GAAP Closing Procedures Manual to assist them in preparing the appropriate forms.
- B. We also noted that copier leases were omitted from the closing package.
- C. We noted one instance in which the agency made a transposition error while transferring amounts from the Department's lease register to the Operating Leases Summary Form.

In order to correctly complete the summary form, the preparers must be informed about procedures, policies, and required documentation. Section 1.8 of the GAAP Manual states, "Assign the right people to prepare and review closing packages and give them everything they need to do a good job...have access to the portions of this manual that relate to their assignments, including any current-year revisions received from the Comptroller General's Office." Section 1.8 and the reviewer's checklist for each closing package require that an effective review of each closing package be performed by a responsible official other than the preparer. A memorandum from the Comptroller General, dated June 25, 1999, stated, "if you have an operating lease under the State Copier Contract with a remaining term of greater than one year at June 30, you generally should report it on the Operating Leases Closing Package." Further, Section 1.6 of the GAAP Manual indicates that because the closing procedures are updated annually, it is imperative that the most current forms be completed.

We recommend that preparers of the closing packages be provided with all documentation and assistance necessary to complete their jobs correctly and efficiently. We also recommend that preparers be trained in GAAP and the GAAP Manual and instructions. We further recommend that the Department adhere to the policies mandated by the Comptroller General by including copier leases in the Operating Leases Summary Form. We also recommend that GAAP Closing Packages are carefully prepared and reviewed to ensure accuracy.

B. REVIEWER CHECKLISTS

In our testing of GAAP Closing Packages, we noted three instances in which required closing package reviewer checklists were missing from the Department's closing packages documentation.

Section 1.8 of the GAAP Manual requires the reviewer to complete the reviewer checklist described at the end of the closing package instructions. The instructions for each reviewer checklist instructs the agency to retain the completed checklist along with other working papers.

We recommend that the Department prepare and retain reviewer checklists in accordance with the guidelines provided by the GAAP Manual.

C. ACCOUNTS PAYABLE

We noted in our testing that the Department could not provide a detail listing of accounts payable by all subfunds to support the Accounts Payable Closing Package amounts.

In order to verify all numbers presented in the closing package, adequate supporting documentation must be included in the closing package documentation. Section 1.9 of the GAAP Manual states that agencies should keep working papers to support each amount they enter on each closing package form.

We recommend that adequate supporting documentation be prepared and retained by the Department with GAAP Closing Packages.

D. FIXED ASSETS

In our testing of the Fixed Assets GAAP Closing Package, we noted that the agency neither performed a physical inventory of all its fixed assets nor updated the detail listing. We also noted three matters that were mentioned in the prior year's report on applying agreed-upon procedures. First, it was noted in the prior year that the agency did not produce a complete and accurate fixed asset detail listing. This matter also existed in 1999, although the Department updated the listings with the information available. However, the updates were made only to the detail and we could not determine that the corrections were made to the general ledger. On the fiscal year 1998 closing package, the agency had an error of approximately \$7,000,000 from a misclassification of Construction-in-Progress when the amount should have been included in the buildings account. We were unable to determine in the current year package that the proper corrections had been made. In connection to this same matter, we were unable to determine whether the agency notified the State Budget and Control Board that the construction project was complete and to transfer the unexpended balance of Construction-in-Progress proceeds to the State, an issue which was also noted in prior year. Additionally, we were unable to trace approximately \$33,000 that the agency referred to as an adjustment to STARS Report on their Fixed Asset Additions Reconciliations Form.

Section 10-1-140 of the South Carolina Code of Laws requires an inventory each fiscal year. Section 1.8 of the GAAP Manual instructs the agencies to implement auditor suggestions for improving these systems. Also, Section 3.8 of the GAAP Manual states that the agency should keep a detailed listing of all general fixed assets as of June 30. Section 3.8 of the GAAP Manual also states that fixed assets that are substantially complete and available for use on June 30 are not Construction-in-Progress, but should be reclassified to the proper fixed asset categories. Section 1.9 of the GAAP Manual states that agencies should keep working papers to support each amount they enter on each closing package form.

We recommend that the agency improve its fixed assets system to include regular inventories of fixed assets and the proper recording of additions, disposals, other changes, and adjustments/error corrections on the detail fixed assets listing and changes to the general ledger balances. We also recommend that the agency reconcile balances on the detail listing to general fixed asset balances and remit unexpended bond proceed balances to the State for completed construction projects. Further, we recommend that the agency develop and retain adequate documentation for all amounts included in the closing packages.

E. COMPENSATED ABSENCES

In our testing of the Compensated Absences Closing Package, we noted that the Department had performed testing of its annual leave detail listing and had found that numerous balances were incorrect. We found errors in hours worked, pay rates, and social security numbers. We also noted that employees who had terminated employment were still on the detail listing.

In order to ensure the accuracy of the closing package, the documentation that supports it must be accurate and dependable. Section 1.8 of the GAAP Manual states that large errors jeopardize the accuracy of the State's financial statements. The existence of any "small" errors tends to cast doubt on the adequacy of the State's internal control structure to detect and correct errors.

We recommend that the Department implement procedures to ensure that source documents are accurate and entered correctly into the accounting system. We also recommend that the information be independently reviewed and agreed to the source documentation.

7. Schedule of Federal Financial Assistance

A. CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBERS

The Catalog of Federal Domestic Assistance (CFDA) gives the program title and corresponding CFDA number for most federal grant programs. We noted two instances in our testing of the Schedule of Federal Financial Assistance (SFFA) prepared by the Department and submitted to the State Auditor for inclusion in the State's federal schedule in which the numbers were listed incorrectly.

If the program titles are listed under the incorrect CFDA number in the Department's SFFA, the statewide schedule of federal financial assistance could be submitted incorrectly to the federal government and may result in disallowed federal funds.

We recommend that the Department implement procedures to ensure the correct CFDA number is used. Effective employee training regarding the SAO letter of instructions regarding the SFFA should be conducted along with proper supervision to alleviate these errors.

B. RECONCILIATIONS

During our testing of the SFFA, we noted four instances of 71 individual grants in which the CGR STARS Project and Phase Codes listed on the SFFA report did not tie to the Comptroller General's Trial Balance by Subfund, Project, and GLA Report (467 Report).

Section 3.2.3.2 of the STARS manual indicates that the department is responsible for ensuring the accuracy of all accounting transactions submitted for processing in STARS. Section 2.1.7.20 requires monthly reconciliations between the 467 Report and the agency's records for each project and phase code in order to note discrepancies that may exist.

We recommend that the Department implement procedures to ensure that the agency's records are reconciled on a monthly basis to the Comptroller General's 467 Report.

C. TRACING TO THE GENERAL LEDGER

During testing, we noted in 55 out of the 71 grant programs that receipts, expenditures, or other entries were not recorded in the general ledger. In addition, in 7 of the 71 grant programs, receipts, expenditures or other entries did not tie to the general ledger.

Department policy requires that all accounting transactions be properly recorded into the Department's general ledger.

We recommend that the Department implement procedures to ensure that all grants are properly recorded in the general ledger. Complete workpapers, indicating reconciliation between the SFFA and the general ledger, should support the schedule. In addition, the Department should ensure proper supervision of all work.

D. MISSING GRANT DOCUMENTATION

In our testing of the SFFA, we noted 4 instances out of 71 grant programs selected in which the agency could not locate grant documentation.

Department policy requires that adequate documentation be maintained for all grants.

We recommend that the agency implement procedures to ensure proper filing and storage of grant documents. In addition, we recommend that employees' workpapers and supporting documentation be reviewed by proper department officials.

E. INCORRECT GRANT NUMBER

During our testing of the SFFA, we noted one instance in which the grant number listed on the Schedule did not agree with the grant number indicated on supporting documentation.

Department policy requires that the SFFA is complete with accurate information as supported by grant documentation.

We recommend that the Department implement procedures to ensure that information on the SFFA and supporting documentation is complete and accurate. Effective employee training regarding the SAO Letter of instructions and effective supervision will alleviate errors.

F. MISSING INFORMATION

During our testing of the SFFA, we noted that in all cases involving non-cash Federal Assistance, the Department has not included the GCR STARS project and phase codes on the schedule.

Accurate reporting of grants should include the project and phase codes as well as the grant numbers.

We recommend that the Department implement procedures to ensure that all programs listed on the SFFA are complete with correct project and phase codes as well as grant numbers. Further, we recommend supervision by proper department authorities.

8. Internal Auditors

We noted during our agreed-upon procedures testing that the Department does not have an internal audit department.

For an agency of this size and complexity, an internal audit department could significantly strengthen the Department's internal control systems and procedures.

We recommend that the Department consider establishing an internal audit department.

Status of Prior Findings

Status of Prior Findings

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the State Auditor's Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998, dated July 26, 1999. We determined that the Department has taken adequate corrective action on all of the deficiencies that were included in the prior year report except for the matters discussed in Comments 3, 4, and 6 of the Accountants' Comments section of this report.

Management's Response



JIM HODGES
Governor

State of South Carolina
Department of Juvenile Justice

PUBLIC PROTECTION

ACCOUNTABILITY

SKILL DEVELOPMENT



GINA E. WOOD
Director

August 31, 2000

Mr. Scott McElveen, L.L.P.
1441 Main Street
Columbia, South Carolina 29202

Dear Mr. McElveen,

The South Carolina Department of Juvenile Justice has completed its review of the preliminary draft of the agreed-upon procedures report for the fiscal year ending June 30, 1999. Our responses to the findings and the recommendations contained in this report are listed below.

AUDIT FINDINGS:

1. RECEIPTS:

A. Deposit Slips

Auditor's Recommendation: "...that the Department implement procedures to ensure that a deposit slip is attached to each receipt package."

Management's Response: Procedures have been developed to ensure that all deposit slips will be attached to supporting documentation.

B. Tracing to the General Ledger

Auditor's Recommendation: "...that the employee who records the receipt in the general ledger review the recorded transaction for accuracy. We also recommend that the employee indicate on the receipts package that the transaction was recorded and reviewed."

Management's Response: Procedures have been established whereby the employee keying the entries make copies of complete transactions for review by the approving official and attach all documentation to the package.

C. Receipts Log

Auditor's Recommendation: "...that the Department pre-number the receipts log to correspond to the pre-numbered receipts vouchers. We also recommend employees be required to sign and date the receipts log and indicate the description and amount of the receipt."

Management's Response: A complete, accurate and chronological receipts log has been initiated and a process is in place to promote prompt and accurate entries which includes employees signature and date.

2. NON-PAYROLL DISBURSEMENTS:

A. Voucher Cancellation

Auditor's Recommendation: "...that vouchers, invoices and supporting documentation be stamped paid. We also recommend that the Department take measures to ensure that personnel understand the importance of canceling paid vouchers, and supporting documentation. We further recommend that the disbursement vouchers be reviewed by appropriate Department personnel prior to filing to ensure vouchers and supporting documentation are properly canceled."

Management's Response: The Department has implemented procedures to ensure cancellation of disbursement vouchers to prevent re-entry and duplicate payments. The importance of this process will be stressed to staff and supervisor review will reinforce the implementation.

B. Voucher Copies

Auditor's Recommendation: "...that the Department consider using a system of multi-color copies of disbursement vouchers whereby each color is consistently used for a different purpose. Such a system would strengthen controls over the Department's disbursement system."

Management's Response: Since returning to the SABAR System, we are now using the standard state voucher which is a multi-colored form. The present procedure is in compliance with the standards and regulations of the Comptroller General's Office. The Fiscal accounting system used in the previous fiscal year would not allow the use of the standard state voucher.

C. Voucher Supporting Documentation

Auditor's Recommendation: "...that the reason for the deletion and a cross-reference to the replacement voucher be documented on the voucher which is cancelled/deleted."

Management's Response: When a voucher is deleted because of necessary corrections, the supporting documentation is transferred to the new voucher. Procedures have been established to ensure that cross-references are made both to the deleted voucher and the revised voucher. Additionally, the reason for deletion will be noted on the voucher being deleted.

D. Clerical Accuracy of Vouchers

Auditor's Recommendation: "...that the Department implement procedures to ensure that the clerical accuracy of each voucher is verified and clearly indicate on the voucher package that this step has been completed."

Management's Response: Procedures already exist, however the accounts receivable supervisor will review vouchers to ensure that this function has been completed and documentation indicates such.

E. Invoice Receipt Date

Auditor's Recommendation: "...that the Department implement procedures to ensure that all invoices are stamped indicating the receipt date."

Management's Response: Fiscal Affairs has and has had in the past, a time date-stamp machine with which all incoming documents including invoices should be stamped. This existing process will be enforced to ensure that all invoices, and supporting documentation are date stamped.

F. Invoice Date and Invoice Number

Auditor's Recommendation: "...that the Department implement procedures to ensure that data entered into the accounting system agrees with source documentation."

Management's Response: The existing procedures will be re-enforced through supervisory review to ensure that accurate data is entered into the accounting system and to assure that the data entered agrees with source documentation.

G. Purchase Order

Auditor's Recommendation "...that the Department implement procedures to ensure that all purchase orders be signed by appropriate personnel when goods or services are received."

Management's Response: Agency policy allows for the receipt of goods or services to be documented on the invoice or the purchase order. We will strive to ensure that agency policy is followed when goods or services are received.

H. Duplicate Voucher Payment

Auditor's Recommendation: "...that accounting procedures and controls be implemented for disbursements to ensure that duplicate payments do not occur, including matching purchase orders, receiving reports and invoices before creating a disbursement voucher. We also recommend that invoices be entered character specific to ensure that the accounting system can identify duplicate entries."

Management's Response: Procedures and controls have been established to ensure that duplicate payments do not occur. Purchase orders, receiving documentation and invoices will be attached to voucher package and reviewed by supervisor.

I. Federal Grant Disbursement

Auditor's Recommendation: "...that the Department implement procedures to ensure compliance with the terms and conditions of the federal grant including not issuing vouchers for grant disbursements requested more than 30 days after the grant period has expired. We also recommend the Department follow-up on outstanding purchase orders for federal grant transactions when the receiving report has not been received to ensure transactions occur within the grant period or purchase orders are cancelled when goods/services are not received before the end of the grant period."

Management's Response: Procedures are being developed to ensure compliance with the terms and conditions of the federal grants. Through supervisory approval the Department shall ensure that no vouchers for grant disbursements will be issued more than 30 days after the grant period has expired. Our new procedures also assures the department that there is adequate follow-up and suitable documentation to validate that goods and services are received within the grant period.

3. PAYROLL DISBURSEMENTS:

A. New Hire Date

Auditor's Recommendation: "...that the Department implement procedures to ensure that information from source documents are entered correctly into the Department's payroll system. We further recommend that the information be independently reviewed and agreed to the source documentation."

Management's Response: All permanent hire dates in the SABAR database and at State HRIS are in agreement. We will continue to refine procedures.

B. Salary Change Authorization

Auditor's Recommendation: "...that the Department implement procedures to ensure that all changes in payroll be reviewed and properly authorized by the appropriate Department officials. We also recommend that agency procedures prohibit the payroll accountant from processing any salary/wage rate changes without evidence of proper authorization of the change.

Management's Response: The Department now has a method of posting individual documentation to place in the personnel records for all changes in payroll. All payroll increases must be authorized and source documentation must be attached to all salary changes.

C. Employee Authorizations

Auditor's Recommendation: "...that the Department implement procedures to ensure that voluntary deduction forms are properly signed by employees prior to including the forms in employee personnel files. We also recommend that agency procedures prohibit the payroll accountant from processing any voluntary deductions forms without evidence of proper authorization by the employee."

Management's Response: The Human Resource Department has developed procedures that will ensure that voluntary deductions are properly documented with the employee's signature.

D. Termination Pay

Auditor's Recommendation: "...that the Department implement procedures to ensure that the final pay for employees who have terminated their employment is calculated correctly, and, further, that the correct payment amount is input into the system. We also recommend that all computations for termination pay be independently reviewed and information used in the calculations, including pay rate, hours worked, and unused leave, be agreed to the appropriate source documentation."

Management's Response: Procedures are being developed to ensure that the final pay for employees is calculated, reviewed, reconciled, documented and keyed accurately.

E. Object Codes

Auditor's Recommendation: "...that the Department implement review procedures to ensure that information in personnel files is complete and accurate so that it agrees with information included in the Comptroller General's payroll warrant register."

Management's Response: Procedures are being developed to ensure that object codes agree between the payroll warrant register and the employee personnel files.

4. JOURNAL ENTRIES, OPERATING TRANSFERS AND APPROPRIATION TRANSFERS:

A. Missing Documents and Inadequate Support

Auditor's Recommendation: "...that the agency implement procedures to ensure that complete and adequate supporting documentation for all transaction documents is properly filed with or its location cross-referenced on the transaction document to be readily retrievable. Further, we recommend that a sign-out system, in which documents are signed out when removed, be implemented to eliminate missing documents."

Management's Response: The Fiscal Affairs office recently moved and some documents were inadvertently detached from supporting documentation. Procedures were in place prior to the move which ensured that documentation was attached to all transactions.

B. Segregation of Duties

Auditor's Recommendation: "...that different employees prepare and enter journal entries into the accounting system. We also recommend that the journal entries be independently reviewed and approved by a responsible agency official that did not prepare or enter the journal entry."

Management's Response: Procedures have been developed to ensure that all journal entries and IDT's receive proper signatures and approvals.

C. Approval of interdepartmental Transfers

Auditor's Recommendation: "...that a responsible agency official sign the interdepartmental transfer form authorizing the transfer."

Management's Response: We will enforce existing procedures to ensure that transfers are properly authorized and such authorization is documented.

D. General Ledger System

Auditor's Recommendation: "...that the Department implement procedures to ensure that transactions are properly posted to the accounting system by account number, date, and document number."

Management's Response: The Department has returned to using the SABAR accounting software. This system maintains integrity in tracing transactions to the general ledger. The previous accounting system would not allow the input of a document number thus tracing similar transactions to the general ledger was difficult.

E. Numerical Sequence of Appropriation and Interdepartmental Transfers

Auditor's Recommendation: "...that the Department implement procedures to ensure that all transfers are numbered sequentially."

Management's Response: Logs are maintained to ensure that all appropriation transfers and IDT's are numbered sequentially.

5. MONTHLY RECONCILIATIONS:

Auditor's Recommendation: "...that these procedures be implemented to ensure that the monthly reconciliations be properly and timely performed and carefully reviewed by an appropriate agency official (other than the preparer). Further, we recommend that the preparation and review of the reconciliations be properly documented."

Management's Response: The agency has hired an employee to complete monthly reconciliations on a timely basis. Procedures have been developed to ensure that agency officials review reconciliations on a regular basis and document their review.

6. CLOSING PACKAGES:

A. Operating Leases

Auditor's Recommendation: "...that preparers of the closing packages be provided with all documentation and assistance necessary to complete their jobs correctly and efficiently. We also recommend that preparers be trained in GAAP

and the GAAP Manual and instructions. We further recommend that the Department adhere to the policies mandated by the Comptroller General by including copier leases in the Operating Leases Summary Form. We also recommend that GAAP Closing Packages are carefully prepared and reviewed to ensure accuracy."

Management's Response: Procedures have been implemented to ensure that preparers of the operating leases and all closing packages have adequate instructions to complete their assignments correctly and that closing packages are reviewed for accuracy.

B. Reviewer Checklists

Auditor's Recommendation: "...that the Department prepare and retain reviewer checklists in accordance with the guidelines provided by the GAAP Manual."

Management's Response: Procedures are now being enforced to ensure the reviewer's checklist is attached to all Closing Packages.

C. Accounts Payable

Auditor's Recommendation: "... that adequate supporting documentation be prepared and retained by the Department with GAAP Closing Packages."

Management's Response: Procedures have been enforced to ensure that all closing packages will maintain adequate support documentation.

D. Fixed Assets

Auditor's Recommendation: "...that the agency improve its Fixed Assets System to include regular inventories of fixed assets and the proper recording of additions and disposals, other changes, and adjustments/error corrections on the detail fixed assets listing and changes to the general ledger balances. We also recommend that the agency reconcile balances on the detail listing to general fixed asset, balances and remit unexpended bond proceed balances to the State for completed construction projects. Further, we recommend that the agency develop and retain adequate documentation for all amounts included in the closing packages."

Management's Response: The Fixed Assets package updates could not be tracked to the general ledger in as much as the Accounting System used for that year is severely limited both for usage and tracking. The agency currently uses the SABAR Fund Accounting System which has adequate audit and review queries. Adequate support documentation will be included in all Closing Packages.

E. Compensated Absences

Auditor's Recommendation: "...that the Department implement procedures to ensure that source documents are accurate and entered correctly into the

accounting system. We also recommend that the information be independently reviewed and agreed to the source documentation.”

Management’s Response: Procedures have been established to ensure that all leave balances are correct in order to ensure accurate reporting and recording.

7. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE:

A. Catalog of Federal Domestic Assistance Numbers

Auditor’s Recommendation: “... that the Department implement procedures to ensure the correct CFDA number is used. Effective employee training regarding the SAO letter of instructions regarding the SFFA should be conducted along with proper supervision to alleviate these errors.”

Management’s Response: CFDA numbers will be agreed to grant award letters and reconciliations to STARS reports will be verified for accuracy prior to submission. Training will be provided as required.

B. Reconciliations

Auditor’s Recommendation: “...that the Department implement procedures to ensure that the agency’s records are reconciled on a monthly basis to the Comptroller General’s 467 Report.”

Management’s Response: Procedures will be established to reconcile to the CG’s 467 report on a monthly basis.

C. Tracing to the General Ledger

Auditor’s Recommendation: “...that the Department implement procedures to ensure that all grants are properly recorded in the general ledger. Complete workpapers, indicating reconciliation between the SFFA and the general ledger, should support the schedule. In addition, the Department should ensure proper supervision of all work.”

Management’s Response: We have implemented the SABAR Accounting System which is able to trace items to the general ledger. Grants will be reconciled to the CG’s 467, the SSFA and the general ledger.

D. Missing Grants

Auditor’s Recommendation: “...that the agency implement procedures to ensure proper filing and storage of grant documents. In addition, we recommend that employees’ work papers and supporting documentation be reviewed by proper department officials.”

Management’s Response: The Fiscal Affairs office recently moved and some items were misfiled. Procedures are being developed to ensure appropriate documentation and filing.

E. Incorrect Grant Number

Auditor's Recommendation: "...that the Department implement procedures to ensure that information on the SFFA and supporting documentation is complete and accurate. Effective employee training regarding the SAO Letter of instructions and effective supervision will alleviate errors.

Management's Response: Procedures have been implemented to ensure that the Schedule of Federal Financial Assistance is complete, accurate, and reconciled to STARS Reports and receive supervisory review. Training will be provided as required.

F. Missing Information

Auditor's Recommendation: "...that the Department implement procedures to ensure that all programs listed on the Schedule of Federal Financial Assistance are complete with correct project and phase codes as well as grant numbers. Further, we recommend supervision by proper department authorities.

Management's Response: We have implemented the SABAR Accounting System which incorporates STARS project and phase codes into the chart of accounts. This will enable the Department to have complete project and phase codes on the SFFA.

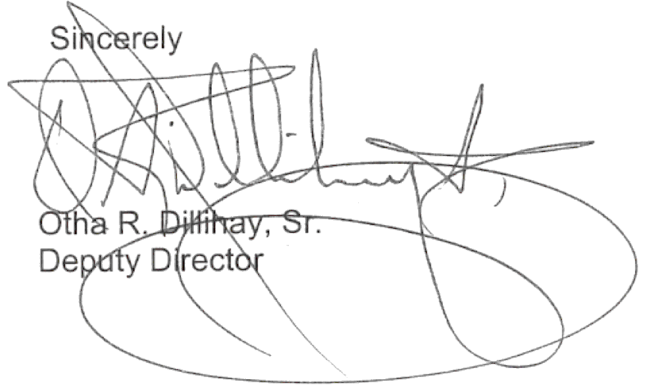
8. INTERNAL AUDITORS:

Auditor's Recommendation: "...that the Department consider establishing an internal audit department."

Management's Response: The Department does have an internal audit department. However, the positions were vacant at the time of the audit. The positions have been posted and will be filled.

I would like to take this opportunity to thank you for your courteous and professional attention. We have benefited tremendously from this review and I assure you that the Department will continue to perfect its accounting procedures. Should you have any questions or require any additional information you may contact Ms. Carol Seawright, Fiscal Affairs Administrator at 896-5638 or feel free to call me at 896-9744.

Sincerely

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Otha R. Dillhay, Sr.
Deputy Director