

SOUTH CAROLINA DEPARTMENT OF JUVENILE JUSTICE

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
PAYROLL TRANSACTIONS	7
Final Pay Calculation	7
Incorrect Pay Period	7
CLOSING PACKAGES	8
Operating Leases Closing Package	8
Accounts Payable Closing Package	8
Compensated Absences Closing Package	9
Cash and Investments Closing Package	9
Capital Assets Closing Package	9
Recommendation	10
RECONCILIATIONS	10
SECTION B – OTHER WEAKNESSES	11
INTERDEPARTMENTAL TRANSFER AMOUNT	12
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	12
SECTION C - STATUS OF PRIOR FINDINGS	13
MANAGEMENT'S RESPONSE	14

State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 20, 2009

The Honorable Mark Sanford, Governor
and
Mr. William R. Byars, Jr., Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Juvenile Justice (the Department) solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2008, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We 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 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$2,500 – general fund, \$141,500 – earmarked fund, \$13,000 – restricted fund, and \$21,900 – federal fund) and ± 10 percent.

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

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

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$292,100 – general fund, \$127,400 – earmarked fund, \$12,000 – restricted fund, and \$26,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$292,100 – general fund, \$127,400 – earmarked fund, \$12,000 – restricted fund, and \$26,400 – federal fund) and percent ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries, and all operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures

5. **General Ledger and Subsidiary Ledgers**

- We inspected 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected 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 accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if 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 were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Mr. William R. Byars, Jr., Director
South Carolina Department of Juvenile Justice
August 20, 2009

10. **Status of Prior Findings**

- We inquired about the status of the finding(s) reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if Agency had taken corrective action.

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

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

PAYROLL TRANSACTIONS

Final Pay Calculation

The Department incorrectly calculated an employee's final pay in one of the twenty-five transactions tested. The error resulted in an overpayment of \$1,446. The Department's internal control procedures did not detect the mistake.

Section 8-11-30 of the 1976 Code of Laws states that, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employment of the State to issue vouchers, checks, or otherwise pay salaries or moneys that are not due to state employees of any department of the State. . ."

We recommend the Department follow its internal control procedures to ensure proper payment to terminated employees.

Incorrect Pay Period

Two of the twenty-five newly hired employees were not paid in accordance with State pay schedule. One employee was paid August 1, 2008 for work performed beginning June 4, 2008. The other employee was paid August 16, 2007 for work performed beginning July 3, 2007. The pay delays occurred because timesheets were not submitted to the payroll department in a timely manner.

Section 8-11-35 of the Code of Laws states in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2nd of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues on a twice monthly schedule as established by the State Budget and Control Board."

We recommend the Department follow the guidelines set forth in the code of laws to ensure employees are paid in the proper pay period.

CLOSING PACKAGES

The Comptroller General's GAAP Closing Procedures Manual, Section 1.7, Summary of Agencies Responsibilities, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

Operating Leases Closing Package

The Department did not complete and submit the operating leases closing package to the Comptroller General's Office even though supporting lease documentation demonstrated that the Department did meet the liability threshold for submission. This oversight occurred due to a miscalculation by Department personnel when evaluating applicable leases.

Accounts Payable Closing Package

We noted a payable in the amount of \$36,092 was misclassified by expenditure category on the accounts payable closing package. The payable was classified as current, but should have been classified on the closing package as intergovernmental. The error occurred due to a misinterpretation of the expenditure classification.

The Comptroller General's GAAP Closing Package Procedures Manual defines intergovernmental payable as payables due to other governmental entities outside the State's financial reporting entity.

Compensated Absences Closing Package

Several exceptions were noted during our testing of the compensated absences closing package. The annual leave balances for two of twenty-five employees randomly selected for testing were incorrect. Leave requests were submitted after the compensated absences closing package was prepared causing these errors.

Two employees on the year end leave liability report had small negative leave balances. The leave liability report was understated because the negative balances were included in the leave calculation.

Four employees on leave without pay or military leave were excluded from the total leave liability reported. The leave liability report calculates a pay rate of zero when an employee is on leave without pay or military leave, resulting in a zero total liability calculated and reported.

Cash and Investments Closing Package

The Department reported incorrect balances for petty cash accounts. The Department did not report the correct authorized balances for all petty cash accounts. As a result the closing package was understated by \$525.

Capital Assets Closing Package

A building was constructed on land owned by the Department and donated at the time of completion. The Department capitalized the building at \$3,000,000. The Department explained that they capitalized the building based on information provided by the contractor. Documentation maintained by the Department indicated that the cost of construction was \$2,810,124. An appraisal is the best method to determine fair market value of a donated asset, but an appraisal was not provided at the time of donation. Therefore, the cost of construction would be the best method for determining fair market value. As a result the capital assets closing package was overstated \$189,876.

Recommendation

We recommend the Department carefully review instructions to ensure that all closing packages are completed in accordance with GAAP Closing Procedures Manual requirements. Also the person approving the closing packages should verify the information reported.

RECONCILIATIONS

We noted seven of the twelve monthly reconciliations were prepared and reviewed by the same employee. In addition, one reconciliation was not signed by the preparer or reviewer.

Section 2.1.7.20 of the Statewide Accounting and Reporting (STARS) Manual states, "To ensure adequate error detection and to satisfy audit requirements, reconciliations must be performed at least monthly on a timely basis, documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, signed and dated by the preparer, and reviewed and approved in writing by an appropriate agency official other than the preparer."

We recommend the Department follow reconciliation procedures as required by STARS Manual.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered a violation of State Laws, Rules or Regulations.

INTERDEPARTMENTAL TRANSFER AMOUNT

The Department transfers revenue for the sale of meals to subfund 3035 using an interdepartmental transfer (IDT) form (STARS Form 40). One of the transactions selected from our sample of cash receipts was an IDT. We determined that the amount transferred on the IDT was incorrect. The Department transferred \$142.50 from subfund 3046 to subfund 3035 instead of \$1,425. The error was not detected by the person responsible for approving the transaction.

Effective internal controls should ensure that recorded amounts agree to supporting documentation.

We recommend the Department communicate the importance of following established internal control procedures when processing accounting transactions. Department personnel responsible for reviewing transfers should perform a careful review of the transfer documents to ensure that it agrees with supporting documentation.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

One grant on the Department's schedule of federal financial assistance included an adjustment which related to a prior year expenditure.

The schedule of federal financial assistance instructions state that the expenditure column should only report federal expenditures for the current state fiscal year. Transactions or adjustments that are related to a prior year should be reported as "other additions" or "other deductions".

The Department should have reported the adjustment in the other deductions column of the schedule. The error resulted in a \$6,128 understatement of expenditures.

We recommend the Department follow the schedule of federal financial assistance instructions to ensure proper reporting of expenditures.

SECTION C - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Juvenile Justice for the fiscal year ended June 30, 2007, and dated June 17, 2008. We determined that the Department has not taken adequate corrective action on the finding, and have repeated it in our finding entitled Reconciliations.

MANAGEMENT'S RESPONSE



South Carolina
Department of
Juvenile Justice

Bill Byars, Director

P.O. Box 21069
Columbia, SC 29221-1069
www.state.sc.us/djj



Mark Sanford
Governor
State of South Carolina

September 22, 2009

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

The management of the South Carolina Department of Juvenile Justice has completed its review and officially authorizes release of the draft report from the State Auditor's Office resulting from the performance of agreed-upon procedures to the accounting records of the South Carolina Department of Juvenile Justice for the fiscal year ended June 30, 2008.

As a cabinet level Agency the South Carolina Department of Juvenile Justice is not governed by a Board of Directors, and, as such, does not have Board Members. The agency director, to whom you sent your cover letter and draft report, has been made aware of its contents.

Management has reviewed the Accountant's Comments. Our response to each finding is as follows: Management concurs with the finding and has taken corrective action or is in the process of taking corrective action.

The Department of Juvenile Justice appreciates the cooperation and courtesies extended to us by the State Auditors Office.

Sincerely,

G. Randall Grant
Deputy Director
Administrative Services Division

Administrative Services Division
4900 Broad River Road, Goldsmith Building, Suite 123
Columbia, South Carolina 29212-3521
Telephone (803) 896-9744 Fax (803) 896-9767

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.32. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.