

June 22, 1999

The Honorable James H. Hodges, Governor
and
Mr. William D. Catoe, Director
South Carolina Department of Corrections
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Corrections for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, 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

TLWjr/trb

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 1998

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
STATE OF SOUTH CAROLINA**

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INDEPENDENT ACCOUNTANT'S 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 Office of the State Auditor and the South Carolina Department of Corrections (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with 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 recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations with those of the prior year. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountant's Comments section of this report.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Department; 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with 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. We found no exceptions as a result of the procedures.
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 that the vouchers were properly approved and that 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as, comparing current year payroll expenditures with those of the prior year, and comparing the percentage change in personal service expenditures to the percentage change in employer contributions, and computing the percentage distribution of fringe benefit expenditures by fund source and comparing the computed distribution to the actual 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 finding as a result of these procedures is presented in Section B in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the internal controls over these transactions were adequate; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 accounting controls over the tested transactions were adequate. The items 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, 1998, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (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 that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Department's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountant's 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 1998. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Report on the Department resulting from our engagement for the fiscal year ended June 30, 1997 dated June 2, 1998, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Section C in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, 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 Sections A and B in the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, 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. We found no exceptions as a result of the procedures.

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 specified users and is not intended to be and should be used by anyone other than these specified parties.

Rogers & Laban, P.A.

Columbia, South Carolina
June 17, 1999

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the Office of the State Auditor and the Department require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the Department is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

RECONCILIATION DIFFERENCES IN REVENUES

The Department maintains a general ledger and all of the revenues recorded therein were found to be in agreement with the Statewide Accounting and Reporting System (STARS) except for the revenues for the Division of Industries.

Good accounting policies dictate that the accounting records for an entity be maintained in a manner such that complete, comprehensive and accurate financial data is accumulated and reconciled, as appropriate, for current and historical use.

We recommend that consideration be given to including all of the financial transactions of the Division of Industries in the Department's primary general ledger, and also to having the Division of Industries reconcile its year-to-date revenue amounts per its general ledger to the year-to-date revenue amounts per the STARS report.

FIXED ASSETS

The following deficiencies were disclosed in our review of the closing package for fixed assets for the year ended June 30, 1998:

- A. The \$19,287,023 amount shown for construction commitments in item 9 of the fixed asset questionnaire included \$3,148,148 in accounts payable and retainages payable as of June 30, 1998. The correct amount of commitments at June 30, 1998 is \$16,138,175 resulting in the commitment amount being overstated \$3,348,148. A similar finding was included in the prior year's report on applying agreed-upon procedures.

Section 3.7 of the GAAP Closing Procedures Manual prepared by the Comptroller General states that construction commitments outstanding shall be computed as follows:

- The contract price.
- Less: Amounts the State has paid contractors from the start of the project through June 30.
- Less: Amounts relating to the project that the agency has reported as accounts payable and/or retainages payable.

We recommend that the instructions in the GAAP Closing Procedures Manual be adhered to in the preparation of its closing packages.

- B. The following differences were disclosed in our comparison of the Department's general ledger account balances and those reported in its closing package:

<u>Description</u>	<u>End of Year Balance</u>		CP
	<u>Closing Package (CP)</u>	<u>General Ledger (GL)</u>	Over (Under) GL
<u>Canteen – Earmarked</u>			
Machinery, Equipment and Other Buildings	\$1,075,749 - 0 -	\$ 944,583 30,728	\$ 131,166 (1) (30,728)
(1) This difference appears to represent the increase in the account for FY 98.			
<u>Industries – Earmarked</u>			
Machinery, Equipment and Other Improvements	9,093,029	9,202,230	(109,201)

A similar finding was included in the prior year's report on applying agreed-upon procedures.

Good accounting practices require the maintenance of accurate control accounts over the various subsidiary listings.

We recommend that all fixed assets of the Department be recorded in the Department's general ledger and the general ledger account balances be adjusted to reflect the correct amounts for the various account balances.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

CASH BALANCES

The cash balance for one of the twenty-one cash accounts maintained and reported by the Department in its closing package as of June 30, 1998 did not reflect the balance per the year end cash reconciliation. The difference noted is as follows:

<u>Account Description</u>	<u>Cash Reconciliation Balance (CR)</u>	<u>Closing Package Balance (CP)</u>	<u>CR Over (Under) CP</u>
Wachovia #320445919 (Community Services)	\$623,562	\$592,095	\$31,467

A similar finding was included in the prior year's report on applying agreed upon procedures.

Good accounting and reporting practices require the recording of accurate financial information in the Department's year-end closing package. The financial information recorded in the closing package should be independently verified by the person that "approves" the closing package prior to its submission.

We recommend that the reconciled amounts for cash be included in the Department's year end closing package. Also, the included amounts should be independently verified by the person that "approves" the closing package prior to its submission.

INVENTORIES

The inventories for the commissary branch for one Department was taken but was omitted from the summary page. This resulted in the amount of inventories reported on the closing package being understated \$32,229.

Good accounting and reporting practices require the recording of accurate financial information in the Department's year end closing package. The financial information recorded in the closing package should be independently verified by the person that "approves" the closing package prior to its submission.

We recommend that checklists be developed for each component of inventory and include therein the names of all the institutional sites that are expected to submit an inventory. Inventories not received by the prescribed dates could then be followed up on. This should help ensure inventories from **all** institutions are included. Also, the included amounts should be independently verified by the person that "approves" the closing package prior to its submission.

INMATE EMPLOYEE PAYROLL

Our tests of inmate employee payroll disclosed that for one payroll disbursement, the inmate employee did not sign his time sheet but his supervisor did.

Good accounting practices and internal control require payroll expenditures to be supported by properly signed time sheets both by the employee and the supervisor.

We recommend that time sheets not be signed by a supervisor prior to the signing by an employee. Also, payroll department personnel should review time sheets for signatures prior to processing the payroll.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Comments section of the report on applying agreed-upon procedures on the Department for the fiscal year ended June 30, 1997, dated June 2, 1998. We determined that the Department has taken adequate corrective action on each of the deficiencies that were included in the prior report except as noted in Sections A and B.

June 22, 1999

Mr. Barry S. Laban
Rogers and Laban, PA
P. O. Box 124
Columbia, SC 29202

Dear Mr. Laban:

The preliminary draft of your report on agreed-upon procedures for the South Carolina Department of Corrections for the fiscal year ended June 30, 1998, has been reviewed and is authorized for release. Enclosed is our response to the Auditor's Comments section of this report.

The Department appreciates the opportunity to participate in the State's review of its accounting records and the review of the system of internal controls. This process always contributes to the accountability of State government and benefits SCDC as well. The Department also appreciates the assistance and competency of your staff.

If you need any further information, please contact the Division of Internal Audits at 896-1737.

Sincerely,

William D. Catoe

MANAGEMENT'S RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

RECONCILIATION DIFFERENCES IN EXPENDITURES

The Department maintains a general ledger for the Division of Industries separate from the primary general ledger of the Department. The Division of Industries (PI) is an enterprise fund that operates like a private sector company. PI uses a business accounting software system which operates on an accrual basis versus the Statewide Accounting and Reporting System (STARS) that operates on a cash basis. The use of a different basis of accounting creates a more difficult reconciliation, but certainly not an impossible one.

Efforts were made by the accounting staff of the Division of Industries to reconcile the revenues and expenditures recorded on the general ledger with those reflected in the STARS report, however, systems and procedures were not fully implemented to adequately accomplish the task.

The Department has recognized the need to combine its accounting functions and general ledgers within one Division. In March 1999, the Financial Accounting Branch integrated the Division of Industries' disbursements into the Department's purchasing and payables systems. Also, the Division of Industries' expenditure reconciliations were incorporated into the Department's reconciliation process at that time.

The Division of Industries is scheduled to begin processing cash receipts and invoicing through the Department's general ledger on July 1, 1999. This will allow the Financial Accounting Branch to reconcile both expenditures and revenues in the same manner that all other expenditures and revenues are reconciled. For fiscal year 1999, the Division of Industries is required to reconcile both expenditures and revenues to the Statewide Accounting and Reporting System.

FIXED ASSETS

A. Construction Commitments

The Department failed to reduce construction commitments by the amount reported as an accounts payable as instructed in the GAAP Closing Procedures Manual. The employees responsible for the preparation and review of the fixed assets closing package have been informed of the correct method of computing construction commitments outstanding.

B. Ledger/Closing Packages Differences

The Department's Division of Internal Audits had previously brought the differences noted by the auditor to the attention of the Financial Accounting Branch. At that time, the differences and the errors that led to the differences were discussed with the employees responsible for the fixed assets closing package. The employees have been given instruction on how to correct the prior errors and avoid such errors in the future.

Because of the complexity of the fixed assets closing package, the employees responsible for its preparation will complete it a week in advance of the due date in order to afford time for a thorough review. In addition, the Division of Internal Audits will provide assistance in the review of the Fixed Asset Closing Package.

CASH BALANCES

The Financial Accounting Branch reconciles all of the cash accounts to the Department's general ledger on a monthly basis. The Department's employees reconciled all cash accounts prior to the July 31st closing package due date. Because of the timing of the posting of Community Services activity to the SCDC ledger, the final SCDC ledger contained transactions that were not posted prior to July 31st. The reconciliation in question was corrected but, the Department failed to report the correction to the Comptroller General's Office.

In the future, we will complete all cash reconciliations as soon as possible and if necessary, we will report any changes in the reconciliation to the Comptroller General's Office.

INVENTORIES

The Department omitted the commissary inventory of one institution from the Inventory Closing Package. As recommended, checklists will be developed for each component of inventory to insure that all institutions expected to submit inventories do so and that those inventories are in the Inventory Closing Package.

INMATE EMPLOYEE PAYROLL

The Department's policies require that an inmate employee sign his time sheet prior to his/her supervisor signing the time sheet. Inmate employee supervisors and the appropriate payroll personnel will be reminded of the Department's policy.