

**SOUTH CAROLINA DEPARTMENT OF
JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 30, 2003

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, 2002, 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:

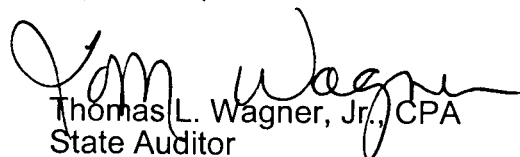
1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the 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 to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over meal tickets issued for money. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Refund of Prior Year Expenditures 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, 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; 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 various STARS 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. 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 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded 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. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all operating 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 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 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, 2002, 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 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 2002. Our finding as a result of these procedures is presented in Refund of Prior Year Expenditures in the Accountant's Comments section of this report
8. We reviewed the status of the deficiencies described in the findings 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, 2001, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, 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. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, 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 conduct an audit, the objective of which would be the expression of an opinion on the specified areas, 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 Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

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

The procedures agreed to by the Agency 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 entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components 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.

REFUND OF PRIOR YEAR EXPENDITURES

The Department received two refunds totaling \$30,227 from providers in fiscal year 2002 for duplicate payments made in the prior year. The payments were made from the Department's general fund; however, the Department recorded the refunds in its earmarked fund which allowed the Department to retain the funds for current operating purposes.

Agency personnel told us that the Department was following Proviso 39.17. of the fiscal year 2002 Appropriation Act which states "Notwithstanding any other provision of law, the Department of Juvenile Justice may retain for general operating purposes any reimbursements of funds for expenses incurred in a prior fiscal year." Because the providers were refunding payments the Department made in error rather than reimbursing the Department for services provided, the proviso is not applicable to these instances.

The Comptroller General's Policies and Procedures Manual (STARS Manual) provides under its revenue object code 3801 definition that a refund of a prior year general fund expenditure should be returned to the State's General Fund as revenue.

We recommend the Agency implement procedures to ensure that refunds of expenditures are properly identified and recorded to the funds from which the expenditures were made. If the expenditures were made from the Agency's general fund in a prior year, the Department should remit the refund to the State's General Fund. Accordingly, we recommend that the Department return the \$30,227 to the General Fund of the State.

SECTION B - STATUS OF PRIOR FINDINGS

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 Department of Juvenile Justice for the fiscal year ended June 30, 2001, and dated August 30, 2002. We determined that the Department of Juvenile Justice has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

June 20, 2003

Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main St, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner,

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, 2002. Our response to the finding and the recommendation contained in this report follows.

AUDIT FINDING:

Refund of Prior Year Expenditures

Auditor's Recommendation: "We recommend the Agency implement procedures to ensure that refunds of expenditures are properly identified and recorded to the funds from which the expenditures were made. If the expenditures were made from the Agency's general fund in a prior year, the Department should remit the refund to the State's General Fund. Accordingly, we recommend that the Department return the \$30,227 to the General Fund of the State."

Management's Response: The South Carolina Department of Juvenile Justice will comply with the Comptroller General's Policies and Procedures regarding future refunds of prior year expenditures. A training session was conducted on June 18, 2003, with appropriate staff.

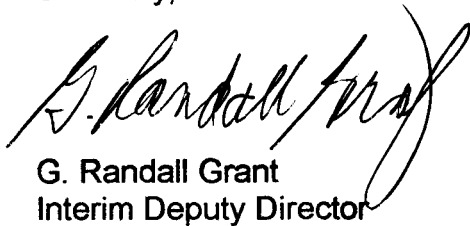
The refund of prior year expenditures, in question, were received in FY 02 and also expended in FY 02. In order to comply with your recommendation that the Department return the refund of expenditures in the amount of \$30,227 to the general fund, the Department has attempted to identify funding sources from which to pay this sum of money. Given the degree of budget cuts experienced by the Department in recent years and the fact that all State Appropriated funds have been committed for the current

Thomas L. Wagner, Jr., CPA
June 20, 2003
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fiscal year, the Department has been unable to identify sufficient funds. The Department will continue its efforts to identify funding sources in order to comply with your recommendation.

We would like to thank you and your auditors for your courteous and professional attention. We have benefited tremendously from this review and I am sure that DJJ will continue to strive towards perfecting its accounting procedures. Should you have any questions or require any additional information, please don't hesitate to call Carol Seawright, Fiscal Affairs Administrator at 896-5638 or you may call me at 896-9744.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Randall Grant". The signature is fluid and cursive, with a large loop at the end.

G. Randall Grant
Interim Deputy Director

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