

**SOUTH CAROLINA DEPARTMENT
OF JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 30, 2002

The Honorable Jim Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
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, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, 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 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 certain documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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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 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. Our findings as a result of these procedures are presented in Payment Process in the Accountant's 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 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. Our findings as a result of these procedures are presented in Termination Pay in the Accountant's Comments section of this report.
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 individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payment Process in the Accountant's Comments section of this report.

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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 or 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, 2001, 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 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 2001. Our findings as a result of these procedures are presented in Compensated Absences Closing Package, Capital Projects, and Termination Pay 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, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payment Process, Compensated Absences Closing Package, and Capital Projects 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, 2001, 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 Compensated Absences Closing Package 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, 2001, 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.

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and
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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 and of the management of the Department 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 "Thomas L. Wagner, Jr.", with a stylized flourish below it.

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.

PAYMENT PROCESS

As noted in our prior report, the Department did not properly cancel the voucher, vendor invoice, and supporting documentation to prevent reprocessing and the creation of duplicate payments. For fiscal year 2001, we tested a sample of 40 disbursement transactions and found that the Department properly cancelled supporting documentation. While this is an effective control in helping to prevent duplicate payments from occurring, other situations may occur that can cause duplicate payments. While testing a sample of 25 journal entries, we noted that two of the entries were to record refunds from vendors who were paid twice in error. Also, two other entries included several checks that were cancelled prior to being mailed to the vendors. The supporting documentation for these entries did not have an explanation for canceling these payments. In our prior engagement, we determined that these types of entries were to correct payments that had been processed twice in error. Department personnel were not able to tell us the reason these checks were cancelled but believed that it could be for correcting duplicate payments. Agency personnel have also told us that they believe duplicate payments may still be occurring and that they are in the process of identifying these situations and reviewing control effectiveness. We were not able to determine how many corrections the Department made for duplicate payments in fiscal year 2001.

Sound accounting practices require actions taken to cancel transactions be adequately documented as to the reasons therefor. Also, effective internal controls over disbursements require adequate procedures for preventing and detecting duplicate payments.

We recommend the Department develop and implement procedures to ensure that the reason for canceling payments is properly explained on supporting documentation. Also, the Department should continue its efforts to identify circumstances that could cause duplicate payments and to develop and implement adequate control procedures to prevent such payments from occurring.

COMPENSATED ABSENCES CLOSING PACKAGE

We tested a sample of ten employee annual leave balances and found that one was not supported by the detail leave records. Department personnel explained that the field department responsible for submitting employee leave slips did not do so by the deadline for the fiscal year-end cutoff. A similar finding was noted in the fiscal year 1999 and 2000 reports.

We tested a sample of five employee holiday and overtime compensatory leave balances and found that one was calculated using the wrong base working hours. This error appears to be the result of an oversight.

We determined, based on our review of supporting documentation and discussions with management, some field office employees were not required to use holiday leave (or be paid for the time worked) within 90 days. We also reported this condition in the State Auditor's Report for fiscal year 2000.

The result of the above errors and violations overstated and understated various leave balances reported on the compensated absences closing package.

An effective system of internal controls requires control procedures to ensure that supporting documentation is submitted in a timely manner to ensure proper reporting. In addition, adequate control procedures (e.g., independent reviews of liability computations and independent verification of base working hours, pay rates, etc.) are necessary to help ensure that errors will be detected and corrected in a timely manner. State Human Resource

Regulation 19-703.06 C.4. provides that holiday compensatory leave credits must be used within 90 days of the date earned and Regulation C.7. requires that, after the 90 days, the employee shall be compensated for the holiday.

We recommend that the Department develop and implement control procedures to ensure that leave slips are timely submitted for proper year-end reporting of leave balances. We also recommend that calculations and information used in the calculations be independently verified. Further, the Department should ensure that holiday compensatory leave is taken in accordance with State law.

CAPITAL PROJECTS

In our prior report, we noted that the Department failed to close out several completed capital projects on the Statewide Permanent Improvements Reporting System (SPIRS) Project Status Report. While the Department has made progress, we found that one of those projects (9557) and another project (9559 completed during fiscal year 2001) have not been closed out on the June 30, 2001 Project Status Report. Project 9557 was funded with State capital improvement bond (CIB) proceeds. As of June 30, 2001, the balance for this project has not been transferred to the Bond Contingency Revolving Fund.

Part 1, Chapter 4, of the Manual for Planning and Execution of State Permanent Improvements states, "In order to close out a project and remove the project from the SPIRS system, the project balance must be zero. This means the final project budget at close-out must equal the final expenditure amount on the project." Also, Section 11-9-140 of the South Carolina Code of Laws states, in part, the following:

The State Budget and Control Board may transfer to the Bond Contingency Revolving Fund any capital improvement bond project balances determined to be usable or needed. ... Before accomplishing a transfer of this type, the required determination must be made by the agency for which the funds were authorized ... and the board must find that the purpose for which the funds were authorized has been achieved.

We again recommend the Department follow appropriate SPIRS procedures to close all of its completed projects. In addition, the Department should design and implement policies and procedures to monitor its SPIRS projects on an ongoing basis in order to timely identify and close out completed projects in SPIRS and to timely notify the State Budget and Control Board to transfer unexpended CIB balances for completed projects to the Bond Contingency Revolving Fund.

TERMINATION PAY

We tested a sample of 25 employee termination pay transactions and found several errors, some of which resulted in over and under payments to employees. The noted errors are as follows:

1. Payments to six employees were initially made for the incorrect amount. The Department corrected these payments by canceling the checks and replacing them with paychecks for the appropriate amounts or by adjusting employee annual leave/compensatory leave payments. These errors occurred because field supervisors do not always submit accurate documentation to the Department's Office of Human Resources (OHR) in time for processing.
2. The Department failed to pay one employee for annual leave (an underpayment of \$465) and two employees for overtime compensatory leave (underpayments of \$288 and \$159). Department personnel stated that these errors were a result of oversight.
3. One employee was paid for an entire pay period although she only worked five of the ten days in the pay period. This error, which occurred because appropriate documentation was not submitted by field supervisors in a timely fashion, resulted in an overpayment to the employee of \$432.

An effective system of internal controls includes procedures to ensure that the entity prepares and timely processes proper documentation to support all personnel and payroll transactions. In addition, controls should be in place to ensure that errors are detected and corrected in a timely manner. In such a control environment, employees are adequately trained and knowledgeable to properly and timely perform their assigned duties and independent checks and verifications are included as control procedures.

Section 8-11-30 of the South Carolina Code of Laws states that it is unlawful for anyone employed by the State to receive salary from the State or any of its departments which is not due.

We again recommend that the Department develop and implement procedures to ensure field supervisors promptly and accurately notify OHR of all personnel transactions including terminations. In addition, we recommend that procedures be implemented to ensure that compensatory leave balances are paid to employees. Such procedures should include an independent verification of payroll computations and employee leave balances at the date of termination. Finally, we recommend that the Department pay the balances due to individuals who were underpaid and recover the overpayment.

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 for the fiscal year ended June 30, 2001, and dated May 31, 2001. We determined that the Department has taken adequate corrective action on each of the findings except for the following:

Fiscal Year 2000 Finding

Repeated for Fiscal Year 2001 as

Disbursement Controls and Cancellation
of Voucher Documentation

Payment Process

Compensated Absences Closing
Package

Compensated Absences Closing
Package

Capital Projects

Capital Projects

MANAGEMENT'S RESPONSE



**South Carolina
Department of
Juvenile Justice**

Gina E. Wood, Director

P.O. Box 21069
Columbia, SC 29221-1069



Jim Hodges
Governor
State of South Carolina

September 19, 2002

Thomas L. Wagner, Jr., CPA
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, 2001. Our responses to the major findings and the recommendations contained in this report are listed below. Our responses to the minor findings will be submitted under separate cover as instructed by Mr. Wayne Sams, CPA.

TERMINATION PAY

Auditor's Recommendation: "...recommend that the Department develop and implement procedures to ensure field supervisors promptly and accurately notify OHR of all personnel transactions including terminations. In addition, we recommend that procedures be implemented to ensure that compensatory leave balances are paid to employees. Such procedures should include an independent verification of payroll computations and employee leave balances at the date of termination. Finally, we recommend that the Department pay the balances due to individuals who were underpaid and recover the overpayment."

Management's Response: We concur with the auditor's recommendation and have recently enhanced our training program for all supervisors to stress the importance of timely and accurate reporting of personnel transactions to our Office of Human Resources. In order to increase awareness of the problem and promote additional oversight, we are providing performance reports to divisional Deputy Directors which identify those supervisors who have not submitted timely and accurate documentation to our Office of Human Resources. Since the agency is spread across the state, personnel forms are sometimes submitted by US mail or interagency mail. We believe that these performance reports will strengthen the internal controls, increase effectiveness of the personnel transaction reporting process, and improve the time that it takes field supervisors to notify OHR of personnel transactions.

Finally, we have corrected the under payments noted in the auditor's findings and we are in the process of collecting the overpayments that were cited in the report. In the future, when our payroll unit is made aware of an overpayment, they will send a letter to the individual who received the overpayment stating the facts, and request a repayment. The letter will indicate that a response is required within thirty days. If after thirty days the Department has not received the repayment, Fiscal Affairs will turn the collection of the repayment over to our legal office to send a letter requesting the repayment. A copy of the first and second (if necessary) letter will be given to accounts receivable who will notify the payroll unit, OHR and our legal office when the repayment is received. Any further action will be at the advice of our staff attorney.

COMPENSATED ABSENCES CLOSING PACKAGE

Auditor's Recommendation: "We recommend that the Department develop and implement control procedures to ensure that leave slips are timely submitted for proper year-end reporting of leave balances.

We also recommend that calculations and information used in the calculations be independently verified. Further, the Department should ensure that holiday compensatory leave is taken in accordance with State law.

Management's Response: We concur with the auditor's recommendation and the Department's Offices of Human Resources and Fiscal Affairs will continue to emphasize the importance of timely and accurate reporting of personnel transactions through supervisory training. The training includes a complete lesson on year-end procedures for the reporting of leave balances. Our Office of Internal Audits will also be requested to audit leave balances at least every three years for accuracy and compliance.

We are presently in the process of modifying our leave policy to incorporate year-end procedures for leave reporting. The revised policy will require that any unused holiday leave must be taken within 90 days of the holiday worked. These policies will be made available to all agency employees and the 90-day rule for unused holiday leave will be emphasized at all new employee orientations and training. In FY 01-02, we did not encounter this problem because the agency reduced the use of overtime and paid out approximately 95% of accrued compensatory time.

CAPITAL PROJECTS

Auditor's Recommendation: "...recommend the Department follow appropriate SPIRS procedures to close all of its completed projects. In addition, the Department should design and implement policies and procedures to monitor its SPIRS projects on an ongoing basis in order to timely identify and close out completed projects in SPIRS and to timely notify the State Budget and Control Board to transfer unexpended CIB balances for completed projects to the Bond Contingency Revolving Fund.

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Management's Response: We concur with the auditor's recommendation and appreciate the auditor's acknowledgement of improvement in this area. We will modify our Capital Improvement Policy to include procedures to monitor our SPIRS projects on an on-going basis and to close out projects within a reasonable period of time after the date of completion. Of the two instances cited in the report, the first project was closed out in FY 01-02. We are presently working with the Budget and Control Board and the Comptroller Generals Office to reconcile differences with the second project. Once these differences are resolved the account will be closed.

PAYMENT PROCESS

Auditor's Recommendation: "We recommend the Department develop and implement procedures to ensure that the reason for canceling payments is properly explained on supporting documentation. Also, the Department should continue its efforts to identify circumstances that could cause duplicate payments and to develop and implement adequate control procedures to prevent such payments from occurring."

Management's Response: We concur with the auditor's recommendation and have revised the desk manual procedures for cancelled checks to require that supporting documentation include an explanation of the cause for the cancellation. We will also initiate new procedures and will provide training on those procedures to our Accounting Technicians.

The Department appreciates the professional and comprehensive manner in which your staff conducted the examination of the Department's records. The support and assistance that is provided by the State Auditor's Office is valued and will aid in the Department's continued improvement of our day-to-day operations. The auditor recommendations will serve as a guide in an on-going effort to strengthen internal controls, enhance accuracy and ensure compliance with applicable laws and regulations.

Should you have any questions or require any additional information, please do not hesitate to call Carol Seawright, Fiscal Affairs Administrator at 896-5638 or you may call me at 896-9744.

Sincerely,


Otha R. Dillihay, Sr.
Deputy Director

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