

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

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

JUNE 30, 2006

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

June 21, 2007

The Honorable Mark Sanford, Governor
and
Mr. Jon Ozmint, Director
South Carolina Department of Corrections
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Corrections for the fiscal year ended June 30, 2006, 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,

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

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and the management of 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, 2006, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the 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 regulation..
- 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 Department'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 general, 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 (\$3,665 - general fund, \$210,219 - earmarked fund, \$7,637 - restricted fund, and \$68,797 - federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented 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 on 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 (\$545,900 – general fund, \$203,133 – earmarked fund, \$8,376 – restricted fund, and \$69,363 – federal fund) and ± 10 percent.

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

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 that 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 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 (\$545,900 – general fund, \$203,133 – earmarked fund, \$8,376 – restricted fund, and \$69,363 – federal fund) and ± 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 the Accountant's Comments section of this report.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded 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, the purpose of the transactions were 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 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, 2006, and inspected selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Department'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 that 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 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 Agency'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, 2006, 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; 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 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, 2006 prepared by the Department and submitted to the State Auditor. We inspected it to determine that 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 finding as a result of these procedures is presented in the Accountant's Comments section of this report.

10. Status of Prior Findings

- We inquired about the status of the deficiency described in the finding reported in the Accountant's Comments section of our report dated June 29, 2006 resulting from our engagement for the fiscal year ended June 30, 2005, to determine if adequate corrective action has been taken.

Various findings had not been corrected as cited 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 areas, accounts, or items. 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 for the information and use of the Governor, South Carolina Office of the State Auditor and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Lalan, PA

June 8, 2007

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2006**

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 Office of the State Auditor and the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred. We have noted instances of these violations under our comments on cash receipts, non-payroll disbursements and closing packages – cash and investments. Other comments are also included below that are not considered violations of State Laws, Rules or Regulations.

CASH RECEIPTS

Our testing disclosed that one of the twenty-five receipts tested for the Prison Industries Division was not deposited in a timely manner.

Proviso 72.1 requires receipts to be deposited at least once each week. The same finding was cited in the prior year's report.

We recommend procedures be put in place to ensure that all receipts are deposited in a timely manner.

NON-PAYROLL DISBURSEMENTS

Our testing of non-payroll disbursements disclosed the following:

1. Department personnel violated State regulations on a procurement card by making two purchases totaling more than \$1,500 at the same vendor on the same day.
2. Three of the original invoices supporting charges by one employee on a procurement card could not be located.

The same findings were also cited in last year's report on applying agreed-upon procedures.

State and Departmental regulations provide that procurement cards cannot be used for purchases over \$1,500 and require the Department to obtain bids on such purchases. State regulations and good internal controls also require that the Department to have a records retention system in place to ensure that all required records can be located. Departmental policy requires each employee receiving a procurement card to sign an acceptance form agreeing to certain requirements.

We recommend that the Department ensure that all procurement card purchases are in compliance with State regulations and implement procedures to ensure that all records can be located as needed.

PAYROLL DISBURSEMENTS

Missing Files:

The Department could not locate a personnel or payroll file for one of the employees selected in our test of payroll disbursements.

We recommend that the Department implement a system to ensure that personnel and payroll files can be located for all employees.

Employer Contributions Misallocated:

In comparing the percentage of personal service costs and employer contributions by fund, we determined that the Department had not allocated approximately \$28,000 in employer contributions to the federal subfunds.

We recommend that the Department ensure that employer contributions are allocated to the subfunds based on personal service costs.

RECONCILIATIONS

During our testing of cash, revenue and expenditure reconciliations between the Department's records and the Comptroller General's, we noted the following:

1. The Department did not reconcile federal expenditures to the Comptroller General's 467 report.
2. We noted old reconciling items on the bank reconciliations that were not cleared in a timely manner.
3. The reconciliation of one bank account for December 2005 was not prepared until May 2006.
4. Two accounts on the December 2005 Comptroller General's reports did not appear in the Department's cash reconciliation report.

The Comptroller General's Policies and Procedures Manual Section 2.1.7.20 requires agencies to perform timely monthly reconciliations for revenues, expenditures, and ending cash balances at the level of detail in the Appropriations Act and requires agencies with federal sub-funds to perform monthly reconciliations with the 467 report for each project and phase code. Similar findings were cited in the prior year's report.

We recommend that the Department ensure that monthly reconciliations are done for all sub-funds in a timely manner in accordance with the requirements.

CLOSING PACKAGES

Grant/Contribution Closing Package:

Our review of the grant/contribution closing package disclosed that the beginning balance for one of the grants on the grants analysis worksheet did not agree with the prior year's ending balance even though the reviewer's checklist question asking whether the beginning balance for each grant equaled the prior year's ending balance was answered yes.

Section 3.3 of the Closing Package Procedures Manual requires agencies to prepare a worksheet supporting the closing package and to prepare a reviewer's checklist.

We recommend that the Department take additional care in preparing the workpapers supporting the closing package and in preparing the reviewer's checklist.

Cash and Investments:

During our testing of the cash and investments closing package, we noted the following based on our review of the bank reconciliations:

1. Three of the bank accounts held by institutions other than the Comptroller General have approximately \$83,000 in outstanding checks listed that are older than one year. Some of the outstanding checks are from 1994.
2. Numerous accounts had adjustments reflected where the funds had been deposited into the wrong account and were not timely corrected.

The reviewer's checklist for the closing package also indicated that the Department did not report the authorized balance for the petty cash accounts and the Department could not provide us with authorizations from the State Auditor for changes in the petty cash accounts for the year. In addition, the amount shown on the closing package omitted 4 petty cash accounts with balances totaling \$1,100.

The deficiencies noted as items 1 and 2 above were also cited in the prior year's report.

Good fiscal policy requires that old outstanding checks be voided in a timely manner and that all reconciling items are posted to the general ledger timely. Section 3.1 of the Closing Package Procedures Manual requires the agencies to report the authorized balanced for petty cash accounts. Section 4.2.20.1 of the of Statewide Accounting and Reporting Systems manual requires the Department to obtain State Auditor approval to establish or increase a petty cash fund.

We recommend that additional care be taken in the preparation of the closing package and that State Auditor approval be obtained for the petty cash funds. In addition, the Department should determine the action required to clear up the old outstanding checks.

Operating Leases:

The Department could not provide us with a copy of the lease, purchase order or an invoice which agreed with the amount shown on the lease registers for 1 of the 3 leases tested for the operating lease closing package.

Section 3.19 of the GAAP Closing Procedures Manual contains the requirements for preparation of the closing package and lease registers.

We recommend that the Department ensure that the amounts shown on the lease registers agree with the actual amounts being paid on the operating leases.

Accounts Payable

Our procedures determined that the Department understated accounts payable on the closing package by \$3,487. Amounts were underreported for 2 vouchers and overstated for 1 voucher. In addition, the Department reported \$91,800 as contract retention that should have been reported as accounts payable since the project was completed.

Section 3.12 of the GAAP Closing Procedures Manual requires the Department to maintain working papers supporting each amount included on the closing package and states that contract retention is for amounts withheld until the project is complete.

We recommend that the Department implement procedures to ensure that all amounts are correctly reported in the closing packages.

Operating Lease Lessor

The Department listed its one lease as lessor as noncancelable even though either party could cancel the lease upon six months written notice prior to any annual expiration. In addition, it was reported that the last payment would be received in fiscal year 2010 instead of 2009. This results in an overstatement of future lease revenues receivable.

Section 3.20 of the GAAP Closing Procedures Manual requires the Department to list future payments to be received under operating leases that were noncancelable.

We recommend that the Department ensure that the closing package is completed based on instructions contained in the GAAP Closing Procedures Manual.

Litigation

The Department did not answer 3 of the 19 questions on the reviewer's checklist for the litigation closing package. Also, the Department completed a Settled Litigation Report Form for 4 cases being reported as being settled with the State not being required to make any future payments on the Litigation Overview Form.

Section 3.13 of the GAAP Closing Procedures Manual requires the Department to complete the reviewer's checklist and to complete a Settled Litigation Report Form only when the State is required to make future payments.

We recommend that the Department ensure that the reviewer's checklist are completed in their entirety and that all parts of the closing package are completed based on the instructions.

Capital Assets:

Our review of the capital assets closing package disclosed the following:

1. The amount reported as outstanding construction commitments was actually the amount of retainage payable reported in the accounts payable closing package.
2. The Department could not provide us with a detailed listing of construction in progress that agreed with the closing package.
3. The beginning balance of accumulated depreciation on depreciable land improvements was \$30 more than last year's ending amount.

Section 3.8 of the Closing Package Procedures Manual contains the definition of construction commitments outstanding. Section 3.9 requires the Department to retain working papers supporting reported amounts.

We recommend that the Department ensure that all amounts on the closing package are reported correctly and supported by workpapers.

Schedule of Federal Financial Assistance

The Department listed an incorrect CFDA number for one of the federal grants based on the CFDA number shown on the grant award letter. Federal requirements require the Department to show the correct CFDA number.

We recommend that the Department ensure that all grants shown on the schedule contain the correct CFDA number.

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

**STATUS OF PRIOR FINDINGS
JUNE 30, 2006**

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountant's Comments section of the our report for the fiscal year ended June 30, 2005, dated June 29, 2006. We determined that the Department has not taken adequate corrective action on the findings related to Prison Industries deposits, reconciliations, non-payroll disbursements and the closing packages related to cash and investments and accounts payable.

MANAGEMENT'S RESPONSE

ATTACHMENT A

MANAGEMENT TRESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. Cash Receipts

SCDC agrees with auditor's finding. We will develop procedures to ensure that Industries receipts are deposited timely.

2. Non-Payroll Disbursements

- a. The party responsible for the violation has been reminded of State regulations. We discuss procurement procedures with all card holders and implement a series of sanctions against violators.
- b. We will discuss retention of documentation with all card holders.

3. Payroll Disbursements

SCDC agrees that we could not find one inactive personnel file. This is the first time that SCDC has not been able to produce any personnel records requested. There is a system in place and it has served us well. Like any system, it relies upon human input and an occasional mistake can be made. We will attempt to be more vigilant in the future.

4. Reconciliations

- a. SCDC reconciles all federal funds, cash, revenues and expenditures, on a monthly basis, but not to the CG's 467 report. In the future we will reconcile to the CG's 467.
- b. SCDC will clear reconciling items in a timely manner.
- c. We experienced turnover in staff and were behind in preparing reconciliations. As soon as staff was hired, we made the preparation of the bank reconciliations a priority. Reconciliations have been prepared timely since.
- d. We are not aware of any cash accounts on the CG's reports that were not reconciled by SCDC.

MANAGEMENT TRESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

5. Closing Packages

Grant/Contribution Closing Package

We agree with the auditor's finding; we will take more care in preparing the work papers in the future.

Cash and Investments

- a. SCDC has worked at reducing the number of outstanding checks on our bank reconciliations. We have voided many of the older outstanding checks.
- b. Accounting personnel have been working to reduce the time required to clear adjustments more timely.
- c. SCDC has written the Auditor's Office concerning the authorized balance for petty cash. Changes in SCDC's petty cash occurred many years ago and current staff has no knowledge of the transactions. The four accounts totaling \$1,100.00 were left off by mistake.

Operating Leases

SCDC did provide purchase orders for the lease in question; the actual payments differed from the purchase order amounts.

Accounts Payable

Upon completion of the accounting payable closing package, SCDC will pull a sample of invoices and test for accuracy. Retentions on completed projects will be treated as accounts payable.

Operating Lease Lessor

We will adhere to the instructions of the GAAP Closing Package Manual. In that we only have one lease and it is cancelable, we will not complete this package in the future.

MANAGEMENT TRESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Litigation

SCDC will comply with the auditor's recommendation.

Capital Assets

- a. SCDC will ensure that all amounts are reported on the correct line
- b. We will ensure that there is backup documentation that agrees with the amounts reported on the closing packages.
- c. We will ensure that the beginning balances of one year equal the closing balances of the prior year.

6. Schedule of Financial Assistance

SCDC will ensure that all CFDA numbers are correct.