

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

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

**JUNE 30, 2007**

# *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 24, 2008

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, 2007, 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.", written in a cursive style.

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

RHGjr/cwc

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS**

**TABLE OF CONTENTS  
JUNE 30, 2007**

	Page
<b>INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES</b>	1 - 4
<b>ACCOUNTANT'S COMMENTS</b>	5 - 9
<b>STATUS OF PRIOR FINDINGS</b>	10
<b>MANAGEMENT'S RESPONSE</b>	Attachment A

## 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, 2007, 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 (\$4,556 – general fund, \$330,818 – earmarked fund, \$8,982 – restricted fund, and \$111,960 – 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 (\$1,402,841 – general fund, \$342,490 – earmarked fund, \$8,448 – restricted fund, and \$102,636 – 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.

### **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 (\$1,402,841 – general fund, \$342,490 – earmarked fund, \$8,448 – restricted fund, and \$102,636 – federal fund) and  $\pm 10$  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  $\pm 5$  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, 2007, 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, 2007, 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, 2007 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 8, 2007 resulting from our engagement for the fiscal year ended June 30, 2006, 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 13. 2008

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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2007**

**SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the 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.

The condition described below has been identified as a violation of State Laws, Rules or Regulations.

**CASH RECEIPTS**

Our testing disclosed that some of the receipts from one of the ten deposits tested for the Prison Industries Division was not deposited in a timely manner. Checks were received between January 17, 2007 and January 19, 2007 and were not deposited until February 6, 2007.

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 implemented to ensure that all receipts are deposited in a timely manner.

**NON-PAYROLL DISBURSEMENTS**

The Department could not provide documentation supporting the distribution of federal funds for one interdepartmental transfer. We also noted the following during our test of expenditures using procurement cards:

1. The Department could not provide the signed employee acceptance form for the two individuals selected for testing.
2. The Department could not provide an invoice for one purchase
3. For one purchase, the Department only provided a photocopy of the charge card slip and did not provide an invoice to indicate what was purchased.
4. For one transaction that included 15 transactions, the Department provided an invoice for the total amount but it did not show the purchase price of each item.
5. Three invoices from one vendor did not add up to the total charged to the procurement card.
6. Invoices from one vendor lacked signatures showing that the merchandise was actually received.
7. No sales tax was included on some invoices and there was no indication that the omission was reported to the purchasing card administrator for use tax assessment.
8. We noted instances where an individual other than the cardholder signed the procurement card slip.
9. Three of the imprinted credit card slips documented that the card had expired 18 months prior to the date of purchase.
10. One procurement card slip was signed two weeks after the date of the invoice.
11. On three separate occasions an employee used his procurement card for an employee that had reached their monthly credit limit.

Similar findings regarding procurement cards were cited in last year's report on applying agreed-upon procedures.

State regulations and good internal controls require 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. We also recommend that the Department implement procedures to ensure personnel adhere to Department procurement card policy.

## **PAYROLL DISBURSEMENTS**

### **Required Personnel Evaluation Not Performed**

During our payroll testing, we noted one employee that did not have his required annual performance review in July, 2006. We also noted that no subsequent reviews had been done for this employee.

The Department is required to perform annual evaluations on all personnel.

We recommend that the Department perform annual performance reviews on all employees as required.

## **RECONCILIATIONS**

During our testing of reconciliations between the Department's general ledger and the Comptroller General's records, we noted an unreconciled difference in one subfund as of fiscal year-end. This reconciliation was not signed by the preparer or reviewer and was not dated so we could not determine if it was prepared in a timely manner. Also there was one item on the reconciliation for October, 2006 that was still showing as a reconciling item at year-end.

We also noted one expenditure reconciliation and one cash reconciliation for October 2006 on which the detail of the reconciling items did not add up to the total of the adjustments and noted one cash reconciliation for October 2006 that was not completed until February 2007.

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 accurate monthly reconciliations are done for all sub-funds in a timely manner in accordance with the requirements.

## **CLOSING PACKAGES**

### **Closing Package Control Checklist**

The Department responded "No" to question # 10 regarding expenditure refunds of more than \$1 million thereby signifying that they did not need to complete the refund receivables closing package. We determined that they had completed this closing package. The Department should have submitted an amended closing package control checklist.

We recommend that the Department ensure that the control checklist is completed accurately. If an error is discovered, an amended control checklist should be completed and sent to the Comptroller General's office.

### **Compensated Absences**

Our review of 15 employees' files supporting their compensated absences balances disclosed the following:

1. One employee was paid his annual leave while on military duty and this fact was not reflected in his leave analysis causing his accrued leave balance to be overstated by 204 hours. In addition, this employee's leave balance was understated because the 12 hours earned for the month of June was not posted until August 15, 2007.

2. One employee had his leave record changed to show that he was using annual leave after he had used up all of his military leave time. The leave report error was not adjusted until after the closing package was prepared. This employee's leave was overstated by 31.5 hours.
3. One employee took 4 hours of leave on February 14, 2007 that was not posted until September 7, 2007 causing the annual leave balance to be overstated.
4. The leave taken on March 23, 2007 for one employee was changed from 2.5 hours to 2 hours on November 7, 2007 causing the leave balance to be understated.

We also noted that the Department showed the incorrect amount of compensated absences for the earmarked funds due to a transposition error. This error was not detected by the reviewer of the closing package.

Section 3.17 of the Closing Package Procedures Manual requires the Department to maintain working papers supporting all amounts reported and good internal controls require that all records be posted in a timely manner.

We recommend that additional care be taken in the preparation and review of the closing package to ensure that all amounts are accurately reported and that procedures be implemented to ensure that all employees' leave records are posted accurately in a timely manner.

### **Cash and Investments:**

During our testing of the cash and investments closing package, we noted that two of the bank accounts held by institutions other than the State Treasurer have approximately \$80,000 in outstanding checks listed that are older than one year. Some of the outstanding checks are from 1994.

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. Question # 6 on the reviewer's checklist regarding differences in closing statement amounts for the current and prior year was not answered.

The deficiencies regarding the outstanding checks and petty cash accounts were also cited in the prior year's comments.

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. The Closing Package Procedures Manual also requires the Department to complete the entire reviewer's checklist before it submits the closing package.

We recommend that additional care be taken in the preparation of the closing package and reviewer's checklist 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.

### **Inventory:**

Our review of the workpapers supporting the amounts shown in the inventory closing package disclosed numerous addition errors in the workpapers resulting in the misstatement of the amount of inventory on hand at year-end. We also noted one item that did not show any total costs even though there was a year-end quantity on hand and a cost for each individual item.

We also noted that the Department listed "retail inventory" as the valuation method for one of the funds on the closing package.

Good internal controls provide for workpapers that are mathematically correct.

We recommend that the Department ensure that all workpapers are correctly extended and mathematically correct and report acceptable valuation methods on the closing package.

### **Miscellaneous Revenues:**

The Department omitted two checks totaling approximately \$3,400 from the miscellaneous revenues closing package. Also, the Department included bad debts for receivables due from State Agencies in the allowance causing the allowance amount to be misstated.

Good internal controls provide for the accurate preparation of closing packages. The Closing Package Procedures Manual requires the Department to exclude receivables from other State Agencies in the reporting of the receivables and related allowance for doubtful accounts.

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

### **Operating Leases:**

Our review of the operating leases closing package determined that the Department did not use the new sales tax rate in effect as of July 1, 2007 in determining future minimum lease payments and did not prepare lease register or report any future minimum lease payments for 178 copier leases and 25 mail equipment leases.

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 and that lease registers be completed on all leases.

### **Litigation**

Our review of the litigation closing package disclosed the following:

1. In two cases, the Department changed the dates that the cases were initiated to a different date than shown on the prior year's closing package.
2. On one case, the Department changed the GAAP fund code from General Fund to the Insurance Reserve Fund and used an Insurance Reserve Fund Case Number that had been assigned to another case based on the prior year's closing package.
3. The Department reported as a new case this year one that was initiated in 2005 based on the closing package.

The Department did not properly complete the litigation closing package based on instructions contained in the Closing Package Procedures Manual.

We recommend that the Department ensure that the information reported in the closing package is accurate.

### **Capital Assets:**

Our review of the capital assets closing package disclosed that the Department did not prepare a reviewer's checklist for this closing package.

Section 3.8 of the Closing Package Procedures Manual requires the preparation of the reviewer's checklists.

We recommend that the Department ensure that reviewer's checklist are completed as required.

### **SECTION B - OTHER WEAKNESSES**

The conditions described in this section were identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **PAYROLL DISBURSEMENTS**

### **I-9's not Completed as Required**

Two inmates did not have I-9's in their file and four other employees had I-9 forms in their personnel files but the forms were not properly completed and signed by the employer.

Federal law requires the Department do have properly completed I-9's on all employees hired after November 6, 1986.

We recommend that the Department completes and retains I-9's on all employees as required by federal law.

### **Administrative Fee Deducted in Error**

During our test of new hires, we determined that a \$3 administrative fee had been taken out for the processing of a child support deduction but no child support was withheld from the check. There was no child support deducted from the first pay check because the employee had only 3 days pay and the deduction is subject to certain limitations to ensure that the employee has sufficient funds to live on.

We recommend that procedures be put in place to ensure that the administrative fee is not charged to the employee if the support payment is not withheld from the paycheck.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

The Department underreported expenditures on the Schedule of Federal Financial Assistance because it did not include approximately \$289,000 passed through to another State agency. Also, we noted that the Department incorrectly showed the CFDA number for one grant as none instead of 16.999 and that they reported two instances of negative revenue that was caused by the transferring of funds between grants.

The Office of the State Auditor provides instructions on the proper completion of the Schedule of Federal Financial Assistance. It requires that any grant not having a CFDA number be shown by entering the first two digits of the federal agency followed by 999; and that transfers between grants be shown as other additions and deductions.

We recommend that the Department ensure that all grants expenditures are reported on the schedule as required and that correct CFDA numbers are used. The Department should ensure that all transfers are correctly reported on the schedule.

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

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2007**

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, 2006, dated June 8, 2007. We determined that the Department has not taken adequate corrective action on the following:

- Prison Industries deposits
- Reconciliations
- Non-payroll disbursements
- Cash and investments closing package
- Schedule of federal financial assistance

New findings were cited in the following areas although the Department took adequate corrective action on last year's findings:

- Payroll disbursements
- Operating lease closing package
- Litigation closing package

Adequate corrective action was taken on the findings cited for the following areas in the prior year's report:

- Grant/Contribution closing package
- Operating lease lessor closing package
- Accounts payable closing package

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
PERFORMED BY ROGERS LABAN, PA, CERTIFIED PUBLIC  
ACCOUNTANTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS**

**1. CASH RECEIPTS**

SCDC agrees with auditor's finding. We are developing procedures to ensure that Industries' receipts are deposited in a timely manner at least once each week. Modifications have been made to our accounting system by our Resource and Information Management staff to allow for prepaid items to be posted to the ledger, which will allow for all checks to be entered when received and deposited at least weekly.

**2. NON-PAYROLL DISBURSEMENTS**

**Lack of Documentation**

SCDC agrees with the auditor's finding and effective immediately we will require that all source documentation have adequate supporting documentation.

**Procurement Card Violations**

The supervisor of the area in which the deficiencies were noted has been informed of the policies and procedures of the State Purchasing Card Program. Cardholders signed an acceptance form agreeing to follow State Procurement policies and procedures and copies of all forms will be kept on file for audit purposes.

**3. PAYROLL DISBURSEMENTS**

SCDC agrees with auditor's finding. Annual performance reviews are required on all employees in accordance with SCDC Policy ADM- 11.06, "Employee Performance Management System." Management will be reminded of policy requirements.

**4. RECONCILIATIONS**

**Reconciliations Not Signed by Preparer or Reviewer**

SCDC agrees with the auditor's findings. Effective immediately, all future reconciliations will be signed and dated in accordance with the requirements of the Statewide Accounting and Reporting Systems (STARS) manual.

**Adjustments Not Made Timely**

The items noted have been reviewed and the accounts have been reconciled. We will ensure that accurate monthly reconciliations are done for all sub-funds in a timely manner in accordance with the requirements.

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
PERFORMED BY ROGERS LABAN, PA, CERTIFIED PUBLIC  
ACCOUNTANTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**5. CLOSING PACKAGES**

**Closing Package Control Checklist**

SCDC agrees with the auditor's finding. The Closing Package Control Checklist will be independently reviewed prior to submission to the Comptroller General's Office. Any errors noted will be corrected and amended forms will be sent to the Comptroller General's Office.

**Compensated Absences**

SCDC agrees with the auditor's findings. We will review our procedures and controls pertaining to entry into our time system. Additionally, care will be taken in the preparation and review of the closing package prior to submission to the Comptroller General's Office.

**Cash and Investments**

The finding for the outstanding checks for the two (2) accounts was corrected in Fiscal Year 2008. The old outstanding checks were voided and all reconciling items were posted to the general ledger.

We are reviewing the petty cash accounts. Many changes in SCDC's petty cash have occurred over the past years and documentation is not available to support all of the changes in the accounts. We will contact the State Auditor to obtain the necessary authorizations in accordance with Section 4.2.20.1 of the STARS manual.

**Inventory**

SCDC agrees with the auditor's findings and will remind staff to ensure that all work papers are correctly extended and mathematically correct. Additionally, we will report the valuation method for the Canteen as "last invoice" instead of "retail inventory."

**Miscellaneous Revenues**

SCDC agrees with the auditor's findings. The instructions contained in the Closing Package Procedures Manual will be thoroughly reviewed prior to submission of the closing package to ensure that the information reported is accurate and complete.

**Operating Leases**

SCDC agrees with the auditors findings. We will ensure that the requirements contained in Section 3.19 of the GAAP Closing Procedures Manual are followed and that lease registers are completed on all operating leases.

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
PERFORMED BY ROGERS LABAN, PA, CERTIFIED PUBLIC  
ACCOUNTANTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Litigation**

SCDC agrees with the auditor's findings. The instructions contained in the Closing Package Procedures Manual will be thoroughly reviewed prior to submission of the closing package to ensure that the information reported is accurate.

**Capital Assets**

Checklists are prepared on each closing package. The checklist may have been removed during an examination and not replaced. In the future, we will permanently attach checklists to each closing package file.

**SECTION B – OTHER WEAKNESSES**

**1. PAYROLL DISBURSEMENTS**

**I-9's not Completed as Required**

We agree with the auditor's finding; we will ensure that forms are completed and properly filed in the personnel files in compliance with Federal Law.

**Administrative Fee Deducted in Error**

Findings concerning the administration fees charged and the deductions made for court ordered child support need to be addressed with the Comptroller General's office. SCDC does not process child support orders or the administrative fees charged.

**2. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

SCDC agrees with the auditor's findings. These items have been reviewed and noted for future reference. SCDC will ensure that all grants expenditures are reported on the schedule as required and that correct CFDA numbers are used.