

**SOUTH CAROLINA
DEPARTMENT OF JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 19, 2019

Mr. Freddie Pough, Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Juvenile Justice (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the of the management of the South Carolina Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures – South Carolina Department of Juvenile Justice (N12)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following: General Fund: Misc Transfer-Other Fund (G/L Account 4890040000); Earmarked Fund: General Fund Approp Revenue Transfer (G/L Account 4890060000); Restricted Fund: Allocations Educ Impv Act (G/L Account 4890090000 [fund 49730589]); and Federal Fund: Fed Grant Subcontract St Agencies (G/L Account 4890100000).
2. Haphazardly select ten cash receipts transactions and inspect supporting documentation to:
 - Agree the transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

One of the variances identified in procedure 1 was the result of an account coding error made in the processing of a transfer. A revenue account was used instead of a transfer account.

Management's Response

We acknowledge and hereby agree with this finding. Additional information and training was sought from the Office of the Comptroller General.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations for the following: General Fund: Supplies and Materials (503 - account series); Earmarked Fund: Contractual Services, Supplies and Materials, and Land, Buildings, Infrastructure (502-, 503-, and 507 - account series, respectively); Restricted Fund: Supplies and Materials (503 - account series); and Federal Fund: Supplies and Materials and Indirect Cost (503 - and 521 - account series, respectively).
4. Haphazardly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - The disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - The disbursement is recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

For federally funded cash disbursements/non-payroll expenditures selected, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General (CG) listing of purchasing card transactions for Fiscal Year 2018 and inspect supporting documentation to determine:

- The cardholder is an authorized user.
- The purchase is authorized based on the cardholder's job title/position.
- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Findings

One of the fifteen disbursements selected for inspection was not paid within thirty business days from the receipt of the proper invoice in accordance with South Carolina Code of Laws Section 11-35-45. The invoice was received in March 2017; however, it was not paid until July 2017.

Another disbursement selected for inspection, for monthly water charges, was incorrectly coded to a rental expenditure account in the general ledger.

Nine of the ten purchasing card transactions selected were not signed by the card holder and supervisor. In addition, documentation was not available to support why one of the ten exceeded their monthly credit limit and another exceeded their single transaction limit.

Management's Response

We acknowledge and hereby agree with these findings. Additional training is being provided to accounts payable employees. Additionally, documentation controls and new processes have been put in place to address the purchasing card transactions.

Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select fifteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

Payroll (Continued)

9. Haphazardly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

10. Haphazardly select seven journal entries and three transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

Finding

One of the journal entry transactions selected for inspection contained a misclassification because it did not properly utilize the account and fund designated for prior period adjustments for the portion of the correcting entry related to a prior year expenditure. Another journal entry transaction selected, to correct account coding, was coded incorrectly according to the supporting documentation.

Management's Response

We acknowledge and hereby agree with this finding. Additional information and training was sought from the Office of the Comptroller General.

Reporting Packages

11. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
12. In addition to the procedure above, perform the following:
 - Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Asset History Sheet and/or Department prepared records.
 - Operating Leases Reporting Package

Agree applicable effective dates and future minimum lease payments on the Future Minimum Lease Payment Schedule to the prior year Schedule. For any new operating leases reported, determine that the effective dates, periodic minimum payment, current expense, and future minimum lease payments were accurately reported based on inspection of invoices and lease agreements.
 - Fund Balance Reporting Package

Determine if responses and any related supplemental information are reasonable/accurate based on inspection of the SCEIS general ledger, invoices, and/or Department prepared reports/spreadsheets.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported and excluded from the original Accounts Payable Reporting Package submission. Further, compare the Annual Leave, Holiday Leave, and Compensatory Leave balances for each employee from the CG's Compensated Absences Report to the balances reflected in SCEIS as of June 30, 2018 to determine if the Department had any unreported late leave submissions.

Findings

Capital Assets Reporting Package

Reconciliation of SCEIS Asset History Report Activity to General Ledger Activity (Form 3.08.5) was not submitted due to inaccurate responses on the Capital Assets Questionnaire that acquisitions plus transfers-in and retirements plus transfers-out equaled the applicable debit and credit balances reflected in SCEIS.

Operating Leases Reporting Package

No corrective action was taken on the prior year finding identified for future minimum lease payments. As a result, calculation discrepancies still exist for several reported leases resulting in an approximate \$4,000 understatement of reported future minimum lease payments.

Fund Balance Reporting Package

A grant fund balance of approximately \$23,000 was reported with the wrong fund on the reporting package.

Subsequent Events Questionnaire

The Department indicated that there were no late submissions of leave identified. However late submissions of leave existed in the leave system when the subsequent events questionnaire was submitted.

In addition, the Department incorrectly reported a liability for a late employee payment because it was identified with the wrong payment date.

Management's Response

We acknowledge and hereby agree with these findings. Please note a corrective action plan has been identified for each of the items listed in this section of the report and we are currently in the process of implementing reporting package changes in procedure.

Composite Reservoir Accounts

13. Obtain a listing of Department composite reservoir accounts and confirm with management that the listing is complete.
14. Obtain fiscal year monthly reconciliations for each composite reservoir account and for four haphazardly selected reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.

Composite Reservoir Accounts (Continued)

15. Haphazardly select and inspect eight composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
16. Haphazardly select and inspect ten composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

17. Select all four controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedure.

Appropriation Act

18. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
19. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Capital Assets

20. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
21. Haphazardly select three capital asset retirements and inspect supporting documentation and the SCEIS Asset History Sheet to determine that each asset was approved for disposal and that proper documentation supports the retirement in accordance with the CG's Reporting Policies and Procedures Manual.
22. Obtain a listing of Department office locations from management. Haphazardly select five locations from the list and confirm that a physical inventory of assets was completed, approved, and properly documented during fiscal year 2018.
23. Haphazardly select ten assets from the SCEIS Asset History Sheet and confirm their existence through physical observation and identification of the assets on the Department's fiscal year 2018 asset inventory.
24. Haphazardly select ten assets observed and confirm the items are recorded on the SCEIS Asset History Sheet.
25. Haphazardly select ten disbursements recorded in repairs/maintenance G/L accounts (502146 - and 502147- account series) to ensure the costs were properly expensed rather than capitalized.

Capital Assets (Continued)

26. Compare current year depreciation expenditures to those of the prior year for each asset class from the SCEIS Asset History Sheet to confirm that fluctuations in depreciation are consistent with asset acquisition activity.
27. Inspect the Department's written procedures and internal controls related to asset management to determine impact on our agreed upon procedures.
28. Inspect the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Department to determine impact on our agreed upon procedures.

Findings

Similar to the finding reported in the prior year, for three of the five capital asset acquisitions selected for inspection the amount recorded as the basis was understated due to the improper allocation of sales tax and/or related component charges, taxes, or fees being expensed instead of capitalized.

In the process of completing procedure 23, we were unable to locate one of the ten assets selected. The asset history sheet included five identical assets and we were able to identify one of those by its tag number, but not the one selected for inspection. In addition, we were unable to confirm three other items selected for observation due to the inventory tags missing from the equipment and no other unique identifier, such as serial number, recorded into the system for these three items.

Management's Response

We acknowledge and hereby agree with these findings. Additional training is being provided to accounts payable staff. Additional procedures are being implemented, with the cooperation of all custodial divisions, as to the identity and location of all of the agency's assets.

Fiscal Monitoring of Schools

29. Inquire of management regarding any investigation, audit or review associated with the Department's school district which was ongoing or completed during the fiscal year. Inspect reports of any completed investigation, audit or review associated with the Department's school district to determine impact on our agreed upon procedures.
30. Obtain a trial balance for the Department's school district for the current and prior fiscal year. Haphazardly select five balances from the trial balances and inspect supporting documentation to determine that the balance is properly recorded and/or described and classified on the trial balance.
31. Compare current year school district trial balance account balances to those of the prior year. Obtain and document an understanding of variations over \$500,000 and 10%.
32. Inspect budget allocations for the current year and the prior year to determine consistent budgeting to support the Department's school district.
33. Compare school district total revenues to total expenditures for the current fiscal year and obtain an explanation from management if school district expenditures exceeded revenues and appropriations.
34. Through inquiry with management, determine and document the Department's reserves/funding to maintain school district operations if an emergency or budget shortfall should occur.

Observations

We found no exceptions as a result of the procedures. However, the procedures, and related inquires with management, revealed the Department utilized funds from other programmatic areas (as allowed by State Proviso) to fund approximately \$2,880,000, or 27%, of school district expenses for the year ended June 30, 2018.

Internal Audit Reports

35. Inspect the Department's internal audit activities beginning with the end date of prior year fieldwork through the end of our current year fieldwork to determine impact on our agreed upon procedures.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

36. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

Observations

We determined that the Department has taken corrective action on each of the findings except where indicated in the findings in the Reporting Packages and Capital Assets sections above.