SOUTH CAROLINA DEPARTMENT OF PROBATION, PAROLE AND PARDON SERVICES

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2012

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State of South Carolina

Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 30, 2014

The Honorable Nikki R. Haley, Governor
and
Ms. Kela E. Thomas, Director
South Carolina Department of Probation,
Parole and Pardon Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Probation, Parole and Pardon Services, (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2012, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **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 regulations.
   - We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
   - 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked 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 ($28,900 – general fund, $135,700 – earmarked fund, and $3,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked 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 ($127,900 – general fund, $112,000 – earmarked fund, and $3,700 – federal fund) and ± 10 percent.

   The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Allocation of Expenditures and General Ledger Account Classification 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 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 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 account level to those of the prior year. We investigated changes in the general, earmarked 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 ($127,900 – general fund, $112,000 – earmarked fund, and $3,700 – 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 finding as a result of these procedures is presented in Employee Benefit Costs 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 was 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. **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.

   Our findings as a result of these procedures are presented in General Ledger Account Classification and Bond Approval in the Accountant's Comments section of this report.

7. **Reporting Packages**
   - We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

   Our findings as a result of these procedures are presented in Reporting Packages and General Ledger Account Classification in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

   We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**
   - We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Probation, Parole and Pardon Services resulting from our engagement for the fiscal year ended June 30, 2010, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2011.

   Our findings as a result of these procedures are presented in General Ledger Account Classification and Reporting Packages 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 elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Probation, Parole and Pardon Services and is not intended to be and should not be used by anyone other than these specified parties.

Richard H. Gilbert, Jr.

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

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS 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 agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

ALLOCATION OF EXPENDITURES

During our analysis of expenditure variances between FY2011 and FY2012, we found that the Department had a $313,944 increase in Leased Car-State Owned expenditures for the Sex Offender Monitoring program. Because the increase exceeded our expectations we made further inquiries of Department staff. Based on our inquiries we determined that the rate applied by the Department to allocate state-owned leased cars to the Sex Offender Monitoring program was 30 percent. Documentation provided by the Department only supported about half of the rate applied

We were told by Department staff that Sex Offender Monitoring appropriations carry forward from year to year and funds had been accumulating in the program account. It appears that the Department was trying to utilize funds that were accumulating by allocating costs to the program. However, they could not substantiate the basis for their allocation.

The FY2011-12 Appropriations Act, Part 1B, Section 52.4 states, "The Department of Probation, Parole and Pardon Services is authorized to carry forward any unexpended funds in the Sex Offender Monitoring program. These funds must be used for the sex offender monitoring program. For the purpose of calculating the amount of funds which may be carried forward by the department, Sex Offender Monitoring program funds carried forward by this provision shall be excluded from the calculation of the carry forward authorized by provision elsewhere in this Act."

We recommend that the Department implement procedures and/or policies to ensure that expenditures are allocated to various programs according to an appropriate allocation base. The Department should maintain documentation that supports its allocation methodology.

EMPLOYEE BENEFIT COSTS

During our analysis of expenditure variances between FY2011 and FY2012, we found that the Department recorded employee benefit costs disproportionately to personal services costs. The Department charged 55 percent of its total personal service costs to the General Fund, but charged 90 percent of Social Security costs to the General Fund. Nineteen percent of personal services costs were charged to Earmarked Fund – Omnibus Criminal Act, but no retirement costs were charged to that fund. Finally the Department charged the Earmarked Fund – Operating Revenue 21 percent in personal services costs, but recorded journal entries that resulted in negative amounts for retirement, social security, and health insurance accounts.

The South Carolina Code of Laws, Title 8, Chapter 11, Section 194 states, “Any agency of state government whose operations are covered by funds from other than general fund appropriations must pay from such other sources a proportionate share of the employer costs of retirement, social security, workers' compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees.”

We recommend that the Department implement procedures and/or policies to ensure that employee benefit expenditures are allocated to various funding sources consistently in proportion to person services expenditures.

GENERAL LEDGER ACCOUNT CLASSIFICATION

During our test of non-payroll disbursements, we found that the Department used an incorrect account classification for two of 25 transactions tested. Two invoices for “per-copy” photocopy charges were classified as “504002000 Rent-copying Equipment” rather than “5040050000 Rental-contingent Payments.”

During our review of the GAAP Reporting Packages, we noted that two invoices were classified and reported as Master Lease payments in accounts 5080030000 and 5080150000 which were not related to Master Leases and should have been classified elsewhere.

During our test of the Appropriation Act, we found that the Department incorrectly classified two invoices for office supplies as “5021490000 Audit Acct Finance,” an account that is intended to be used for accounting services and requires approval.

The Comptroller General’s Office Policies and Procedures include the specific definitions for coding transactions to the proper revenue and expenditure accounts.

We recommend that the Department implements procedures and/or policies to ensure expenditures are properly classified.

REPORTING PACKAGES

The Department reported inaccurate or erroneous information on the Master Reporting Checklist and nine of its year-end reporting packages:

- Master Checklist – One question required a schedule in response to the Department's answer; the schedule was not completed, and upon inquiry, the Department indicated that the question had been answered incorrectly. Another question reported amounts that did not agree with SCEIS balances. We found that two invoices had been incorrectly classified.
- Grants Receivables package – The Department reported the amount received rather than the receivable balance. The Department did not report deferred grant revenues, although there were amounts that should have been reported. The Department did not effectively assess the collectability of outstanding grant receivables.
- Accounts Receivable package – The Department misstated Current and Non-Current Net Receivable amounts.
- Refunds Receivable package – The Department reported a refund received in the subsequent fiscal year in the current year. The same refund was also reported as a Non-Current Net Receivable rather than a Current Net Receivable. The Department did not report two refund receivables as well as an employee receivable amount. Due to these errors, other amounts reported were incorrect.
- Prepaid Expenses package – The Department included an expenditure which was not paid as of the end of the fiscal year. Complete costs were not included for one prepaid invoice. The form was miscalculated, creating a negative amount for prior year benefit. Due to these errors, other amounts reported were incorrect.

- Operating Leases package – One lease was incorrectly calculated in the Current Expenses column, and the FY13 and FY14 future minimum lease payments for another lease was incorrect. The total of Current Expense did not agree to amounts reported for Required Minimum Lease Payments for Operating Leases.
- Accounts Payable package – The Department included duplicate invoices in its calculation of payables, and erroneously included two refund amounts. The Department improperly included an FY13 transaction and excluded an FY12 invoice. An invoice which included an accrued expense for FY12 was not reported, but was improperly listed on the Prepaid Expenses package. The Department did not report on the reporting package the amount in their general ledger for amounts held in custody for others.
- Litigation package – The Department answered yes to a question concerning payments to private attorneys, but did not complete the required supplemental form.
- Compensated Absences package – The Department's number of reported Full-Time Equivalent positions did not match supporting documentation. The Department indicated in one question that Controller General Compensated Absences liability amounts were correct, then reported differing amounts.
- Subsequent Events package – The Department indicated that it did not have grant receivables, when it did. A subsequent question concerning the collectability of grant receivables was also answered inaccurately. The Department did not provide required information in response to two of its answers.

The Comptroller General's Reporting Policies and Procedures Manual provides specific and detailed instructions for completion of the each of the GAAP reporting packages.

We recommend the Department follow the guidelines set by the Comptroller General to ensure all reporting packages are accurately completed and reviewed.

BOND APPROVAL

During our testing of the Appropriation Act program, we made inquiries of the Department pertaining to blanket bond approval. The Department does have a blanket bond and was subject to the requirements of this section. We found no evidence of the approval of the policy with the Attorney General or the State Auditor, and the Department was unable to demonstrate that the appropriate approvals had been obtained.

The South Carolina Code of Laws, Title 1, Chapter 11, Section 180 states, “Additional powers of the Budget and Control Board. (4) approve blanket bonds for a state department, agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. (The Budget and Control board has delegated its responsibility to the State Auditor.)”

We recommend that the Department obtain all necessary approvals for their blanket bonds.

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 South Carolina Department of Probation, Parole and Pardon Services for the fiscal year ended June 30, 2010, and dated August 30, 2011. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2011. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated the finding for Object Code at General Ledger Account Classification and the finding for Miscellaneous Revenues Closing Package at Reporting Packages.

MANAGEMENT’S RESPONSE

State of South Carolina
Department of Probation, Parole and Pardon Services

Nikki R. Haley
Governor

Kela E. Thomas
Director

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July 14, 2014

Mrs. Sue Moss, Audit Manager
Office of the State Auditor
1401 Main Street, Ste. 1200
Columbia, SC 29201

Dear Mrs. Moss:

We have reviewed the findings to be included in the final audit report resulting from your performance of the agreed-upon procedures review of our financial records for fiscal year-ended June 30, 2012.

Listed below are the agency responses to the report findings.

ALLOCATION OF EXPENDITURES

During our analysis of expenditure variances between FY2011 and FY2012, we found that the Department had a $313,944 increase in Leased Car-State Owned expenditures for the Sex Offender Monitoring program. Because the increase exceeded our expectations we made further inquiries of Department staff. Based on our inquiries we determined that the rate applied by the Department to allocate state-owned leased cars to the Sex Offender Monitoring program was 30 percent. Documentation provided by the Department only supported about half of the rate applied

We were told by Department staff that Sex Offender Monitoring appropriations carry forward from year to year and funds had been accumulating in the program account. It appears that the Department was trying to utilize funds that were accumulating by allocating costs to the program. However, they could not substantiate the basis for their allocation.

The FY2011-12 Appropriations Act, Part 1B, Section 52.4 states, "The Department of Probation, Parole and Pardon Services is authorized to carry forward any unexpended funds in the Sex Offender Monitoring program. These funds must be used for the sex offender monitoring program. For the purpose of calculating the amount of funds which may be carried forward by the department, Sex Offender Monitoring program funds carried forward by this provision shall be excluded from the calculation of the carry forward authorized by provision elsewhere in this Act."

We recommend that the Department implement procedures and/or policies to ensure that expenditures are allocated to various programs according to an appropriate allocation base. The Department should maintain documentation that supports its allocation methodology.

Agency Response:
The Agency uses the Workload Model to derive and calculate the 30% allowable charges to be applied to the Sex Offender Program. The agency applied this cost to one major expenditure to utilize the carry forward funds authorized by the FY2011-12 Appropriations Act, Part 1B, Section 52.4.

EMPLOYEE BENEFIT COSTS
During our analysis of expenditure variances between FY2011 and FY2012, we found that the Department recorded employee benefit costs disproportionately to personal services costs. (a) The Department charged 55 percent of its total personal service costs to the General Fund, but charged 90 percent of Social Security costs to the General Fund. Nineteen percent of personal services costs were charged to Earmarked Fund – Omnibus Criminal Act, but no retirement costs were charged to that fund. (b) Finally the Department charged the Earmarked Fund – Operating Revenue 21 percent in personal services costs, but recorded journal entries that resulted in negative amounts for retirement, social security, and health insurance accounts.
The South Carolina Code of Laws, Title 8, Chapter 11, Section 194 states, "Any agency of state government whose operations are covered by funds from other than general fund appropriations must pay from such other sources a proportionate share of the employer costs of retirement, social security, workers' compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees."
We recommend that the Department implement procedures and/or policies to ensure that employee benefit expenditures are allocated to various funding sources consistently in proportion to person services expenditures.

Agency Response:
(a) The agency concurs with finding.

(b) The recorded IDT was a refund that resulted in a negative amount on June 11, 2012.

GENERAL LEDGER ACCOUNT CLASSIFICATION
During our test of non-payroll disbursements, we found that the Department used an incorrect account classification for two of 25 transactions tested. (a) Two invoices for "per-copy" photocopy charges were classified as "504002000 Rent-copying Equipment" rather than "5040050000 Rental-contingent Payments."
(b) During our review of the GAAP Reporting Packages, we noted that two invoices were classified and reported as Master Lease payments in accounts 5080030000 and 5080150000 which were not related to Master Leases and should have been classified elsewhere.
(c) During our test of the Appropriation Act, we found that the Department incorrectly classified two invoices for office supplies as "5021490000 Audit Acct Finance," an account that is intended to be used for accounting services and requires approval.
The Comptroller General's Office Policies and Procedures include the specific definitions for coding transactions to the proper revenue and expenditure accounts.
We recommend that the Department implements procedures and/or policies to ensure expenditures are properly classified.

Agency Response:
(a) The Comptroller General's Office has notified the Agency that 'price per copy" classification is 5030020000. The agency will notify the Comptroller's General Office and reporting on the 2014 Reporting Packages question 55.

(b) The two invoices 3003041117 and 5700402109 are not related to the SCEIS financing agreement per Form 2.0.1, Rev. 06/30/2012, therefore the Agency was correct to exclude from question 41. However, the payments were related to the State Treasurer's Office

Master Lease Financing program. The two invoices were the last two payments of the five year financing agreement.

5080030000 PRINCIPAL-MASTER LEASE PROGRAM 5080150000 INTEREST-MASTER LEASE PROGRAM	47,095.00 6,314.00
** Expenditure Detail by Group	53,409.00

(c) The Agency concurs with the finding and has taken corrective action.

REPORTING PACKAGES

Master Checklist – (Q7) One question required a schedule in response to the Department's answer; the schedule was not completed, and upon inquiry, the Department indicated that the question had been answered incorrectly. (Q41) Another question reported amounts that did not agree with SCEIS balances. We found that two invoices had been incorrectly classified.

Agency Response:

Q 7: The Agency concurs and corrective action has been taken.

Q 41: The two invoices 3003041117 and 5700402109 are not related to the SCEIS financing agreement per Form 2.0.1, Rev. 06/30/2012, therefore the Agency was correct to exclude from question 41. However, the payments were related to the State Treasurer's Office Master Lease Financing program. The two invoices were the last two payments of the five year financing agreement.

5080030000 PRINCIPAL-MASTER LEASE PROGRAM 5080150000 INTEREST-MASTER LEASE PROGRAM	47,095.00 6,314.00
** Expenditure Detail by Group	53,409.00

Grants Receivables package – The Department reported the amount received rather than the receivable balance. The Department did not report deferred grant revenues, although there were amounts that should have been reported. The Department did not effectively assess the collectability of outstanding grant receivables.

Agency Response:

The Agency concurs and corrective action has been taken.

Accounts Receivable package – The Department misstated Current and Non-Current Net Receivable amounts.

Agency Response:

The Agency concurs and corrective action has been taken.

Refunds Receivable package – The Department reported a refund received in the subsequent fiscal year in the current year. The same refund was also reported as a Non-Current Net Receivable rather than a Current Net Receivable. The Department did not report two refund receivables as well as an employee receivable amount. Due to these errors, other amounts reported were incorrect.

Agency Response:

The Agency concurs and corrective action has been taken.

Prepaid Expenses package – The Department included an expenditure which was not paid as of the end of the fiscal year. Complete costs were not included for one prepaid invoice. The form was miscalculated, creating a negative amount for prior year benefit. Due to these errors, other amounts reported were incorrect.

Agency Response:

The Agency concurs and corrective action has been taken.

Operating Leases package – One lease was incorrectly calculated in the Current Expenses column, and the FY13 and FY14 future minimum lease payments for another lease was incorrect. The total of Current Expense did not agree to amounts reported for Required Minimum Lease Payments for Operating Leases.

Agency Response:

The Agency concurs and corrective action has been taken.

Accounts Payable package – The Department included duplicate invoices in its calculation of payables, and erroneously included two refund amounts. The Department improperly included an FY13 transaction and excluded an FY12 invoice. An invoice which included an accrued expense for FY12 was not reported, but was improperly listed on the Prepaid Expenses package. The Department did not report on the reporting package the amount in their general ledger for amounts held in custody for others.

Agency Response:

The Agency concurs and corrective action has been taken.

Litigation package – The Department answered yes to a question concerning payments to private attorneys, but did not complete the required supplemental form.

Agency Response:

The Agency concurs and corrective action has been taken.

Compensated Absences package – The Department's number of reported Full-Time Equivalent positions did not match supporting documentation. The Department indicated in one question that Controller General Compensated Absences liability amounts were correct, then reported differing amounts.

Agency Response:

The Agency concurs and corrective action has been taken.

Subsequent Events package – The Department indicated that it did not have grant receivables, when it did. A subsequent question concerning the collectability of grant receivables was also answered inaccurately. The Department did not provide required information in response to two of its answers.

Agency Response:

The Agency concurs and corrective action has been taken.

BOND APPROVAL

During our testing of the Appropriation Act program, we made inquiries of the Department pertaining to blanket bond approval. The Department does have a blanket bond and was subject to the requirements of this section. We found no evidence of the approval of the policy with the Attorney General or the State Auditor, and the Department was unable to demonstrate that the appropriate approvals had been obtained.

The South Carolina Code of Laws, Title 1, Chapter 11, Section 180 states, "Additional powers of the Budget and Control Board. (4) approve blanket bonds for a state department, agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. (The Budget and Control board has delegated its responsibility to the State Auditor.)"

We recommend that the Department obtain all necessary approvals for their blanket bonds.

Agency Response:

The Agency concurs and corrective action has been taken.

Sincerely,

Sonya T. Bookard

Sonya T. Bookard
Deputy Director for Administration

Cc: Cheryl Mack Thompson, Assistant Deputy Director for Administration

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