

**SOUTH CAROLINA DEPARTMENT OF
PROBATION, PAROLE AND PARDON SERVICES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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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

January 26, 2015

The Honorable Nikki R. Haley, Governor
and
Mr. Jerry B. Adger, 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, 2013, 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 general, 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, \$130,900 – earmarked fund, and \$5,500 – 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 (\$131,500 – general fund, \$121,400 – earmarked fund, and \$8,500 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Late Payment Fees 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 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 (\$131,500 – general fund, \$121,400 – earmarked fund, and \$8,500 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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 journal entry transactions selected were chosen randomly. We tested all appropriation transfers. Our finding as a result of these procedures is presented in Journal Entry Posting in the Accountant's Comments section of this report.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

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

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Authorized Attorney Fees in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

8. **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 Department resulting from our engagement for the fiscal year ended June 30, 2012, to determine if Department had taken corrective action.

The Honorable Nikki R. Haley, Governor
and
Mr. Jerry B. Adger, Director
South Carolina Department of Probation,
Parole and Pardon Services
January 26, 2015

Our findings as a result of these procedures are presented in Allocation of Expenditures 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.

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

ACCOUNTANT'S COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of the 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

The accountant's comment titled Allocation of Expenditures reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2012 cited a lack of adequate documentation to support the allocation of Leased Car-State Owned expenditures to the Sex Offender Monitoring program. The FY2012-13 Appropriations Act, Part 1B, Section 52.4 allows the Department to carry forward Sex Offender Monitoring program funds exclusive of other funds and the use of the funds must be for the Sex Offender Monitoring program.

The Department used the same allocation method and percentage to allocate Leased Car-State Owned expenditures in fiscal year 2013. The documentation provided by the Department to support the fiscal year 2013 allocation was the same workload model documentation provided for the fiscal year ended June 30, 2012. As described in the prior year finding, the workload model documentation did not adequately support the allocation of 30 percent.

We again recommend the Department implement procedures and/or policies to ensure expenditures are allocated to programs according to an appropriate allocation base that is adequately documented and the documentation supporting the allocation should be created prior to the application of the allocation.

REPORTING PACKAGES

The accountant's comment titled Reporting Packages reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2012 reported several exceptions associated with the completion of year end reporting packages.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are accurate and prepared in accordance with instructions, complete, and timely." We tested the Department's 2013 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following comments describe the exceptions we encountered as compared to the prior year report.

Grant/Contribution Revenues Reporting Package

The prior year report cited the Department for not effectively assessing the collectability of the grant receivable balance and we recommend that assessment occur based on the components of the receivable balance reported on the 2013 reporting package. The grant deferred revenue was not calculated and reported on the reporting package form 3.3.2 on the 2013 reporting package, a condition also cited in the prior year report.

Miscellaneous Revenues Reporting Package

The prior year report cited a misstatement of the Current and Non-Current Net Accounts Receivable. Based on our testing, we noted that the Department's current year reporting package included a clerical error which resulted in a misstatement of the Current and Non-Current portion of the Net Accounts Receivable.

Refund Receivables Reporting Package

The prior year report cited several exceptions including reporting the current receivable as non-current and excluding some receivables including an employee receivable. Our testing of the 2013 reporting package identified several exceptions including exceptions similar to those described in the prior year report.

Capital Assets Reporting Package

The Department purchased vehicles and placed them in service in fiscal year 2013. Those vehicles were excluded from the Department's 2013 Asset History report and the assets were not reported in the reporting package.

Operating Leases Reporting Package

The prior year report cited several exceptions including misstatements of future minimum lease payments. Our current year testing also identified several exceptions including misstatements of future minimum lease payments for certain years and in total.

Accounts Payable Reporting Package

The prior report cited several exceptions including identification of a transaction that did not qualify as a payable but was reported as one and the failure to report certain payables in the accounting system. Our review of the 2013 reporting package also identified a transaction incorrectly included in the reported payable balance and certain payable balances in the general ledger that were not included on the reporting package.

We recommend the Department implement additional procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Department's accounting records, and independently reviewed for accuracy and completed in accordance with instructions.

AUTHORIZED ATTORNEY FEES

During our review of the litigation reporting package we discovered that the attorney fees paid to one law firm exceeded the maximum compensation authorized by the Attorney General's Office. The Attorney General's Office authorized payments totaling \$5,000. The Department paid the law firm \$11,145.

The South Carolina Code of Laws, Title 1, Chapter 7, Section 170 states, "A department or agency of state government may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him."

We recommend the Department develop and implement procedures to ensure compliance with the maximum fees approved by the Attorney General.

SECTION B – OTHER WEAKNESSES

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

JOURNAL ENTRY POSTING

For one of twenty-five journal entries randomly selected for testing, amounts posted to the accounting system in applicable subfunds did not match the supporting documentation. The purpose of the journal entry was to allocate one day's revenue from the unclassified revenue account to the proper accounts and subfunds. Probation and Parole Supervision Fee (SCEIS account 4370140000) for subfund 3035 was posted to subfund 3269 and the fee for subfund 3269 was posted to subfund 3035. The result of the posting error was a \$569 revenue overstatement in subfund 3269 and understatement in subfund 3035.

To prevent misstatements in the accounting system, effective internal controls should include controls designed to detect and timely correct errors, such as an independent review to ensure the accuracy of data entry.

We recommend the Department review its current procedure for review and approval of journal entries to ensure the controls are operating effectively to prevent posting errors.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Several exceptions were noted during our review of the Department's Schedule of Federal Financial Assistance (SFFA). The exceptions included a negative revenue that was not adequately explained for a grant in CFDA 16.575 and the wrong fund source code reported for CFDA 16.582. The Department's grant award documentation for the CFDA 16.582 grants indicate that the funds were received from a nonfederal entity that was not within the reporting entity of the State (fund source code "b"), but were reported on the SFFA as funds received directly from the federal grantor (fund source code "a").

The State Auditor's letter of instructions explains that there should be no negative revenues or expenditures reported on the SFFA or that any negative revenue or expenditure must be fully explained.

We recommend the Department review its procedures for preparing and reviewing its SFFA to ensure that it is submitted in accordance with the State Auditor's letter of instructions.

LATE PAYMENT FEES

One of twenty-five non-payroll disbursements randomly selected for testing included a late payment fee paid to a recurring vendor. In our review of the transaction, it was discovered that the late fee was due to timing and communication issues with the vendor with regards to the billing and payments of its invoices. Our review revealed that late fees were a standard occurrence with this and several other recurring vendors. We determined that the Department paid approximately \$7,500 in late payment fees during the fiscal year.

The South Carolina Code of Laws, Title 11, Chapter 35, Section 45 requires vouchers for payment be submitted to the Comptroller General's Office within thirty work days from acceptance of the goods or services and proper invoice. In addition, Section 22 of the Comptroller General's Disbursement Regulations state that no late payment charges will be paid to a vendor if the invoice and voucher is received by the Comptroller General's Office within thirty workdays. We reviewed Department processing of payments for this vendor during the fiscal year and did not find the transaction processing of the Department to be in violation of the Code of Laws or Disbursement Regulations thirty day requirements. Department personnel indicated that corrective action addressing the condition in this comment was already being addressed by the Department.

We recommend the Department continue to develop and implement procedures and communicate with the other parties in the process to ensure that late payment penalties are not assessed by vendors and paid by the Department on a recurring basis.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2012, and dated May 30, 2014. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated Allocation of Expenditures and Reporting Packages.

MANAGEMENT'S RESPONSE

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

Nikki R. Haley
Governor



Jerry B. Adger
Interim Director

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February 18, 2015

Mr. Richard Gilbert
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Ste. 1200
Columbia, SC 29201

Dear Mr. Gilbert:

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, 2013.

Listed below are the agency responses to the report findings.

ALLOCATION OF EXPENDITURES

The accountant's comment titled Allocation of Expenditures reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2012 cited a lack of adequate documentation to support the allocation of Leased Car-State Owned expenditures to the Sex Offender Monitoring program. The FY2012-13 Appropriations Act, Part 1B, Section 52.4 allows the Department to carry forward Sex Offender Monitoring program funds exclusive of other funds and the use of the funds must be for the Sex Offender Monitoring program.

The Department used the same allocation method and percentage to allocate Leased Car-State Owned expenditures in fiscal year 2013. The documentation provided by the Department to support the fiscal year 2013 allocation was the same workload model documentation provided for the fiscal year ended June 30, 2012. As described in the prior year finding, the workload model documentation did not adequately support the allocation of 30 percent.

We again recommend that the Department implement procedures and/or policies to ensure expenditures are allocated to programs according to an appropriate allocation base that is adequately documented and the documentation supporting the allocation should be created prior to the application of the allocation.

Agency Response:

The Agency concurs and corrective action has been taken.

REPORTING PACKAGES**Grants Receivables Reporting Package**

The prior year report cited the Department for not effectively assessing the collectability of the grant receivable balance and we recommend that assessment occur based on the components of the receivable balance reported on the 2013 reporting package. The grant deferred revenue was not calculated and reported on the reporting package form 3.3.2 on the 2013 reporting package, a condition also cited in the prior year report.

Agency Response:

The Agency concurs and corrective action has been taken.

Miscellaneous Revenue Reporting Package

The prior year report cited a misstatement of the Current and Non-Current Net Accounts Receivable. Based on our testing, we noted that the Department's current year reporting package included a clerical error which resulted in a misstatement of the Current and Non-Current portion of the Net Accounts Receivable.

Agency Response:

The Agency concurs and corrective action has been taken.

Refunds Receivable Reporting Package

The prior year report cited several exceptions including reporting the current receivable as non-current and excluding some receivables including an employee receivable. Our testing of the 2013 reporting package identified several exceptions including exceptions similar to those described in the prior year report.

Agency Response:

The Agency concurs and corrective action has been taken.

Capital Assets Reporting Package

The Department purchased vehicles and placed them in service in fiscal year 2013. Those vehicles were excluded from the Department's 2013 Asset History report and the assets were not reported in the reporting package.

Agency Response:

The Agency concurs and corrective action has been taken.

Operating Leases Reporting Package

The prior year report cited several exceptions including misstatements of future minimum lease payments. Our current year testing also identified several exceptions including misstatements of future minimum lease payments for certain years and in total.

Agency Response:

The Agency concurs and corrective action has been taken.

Accounts Payable Reporting Package

The prior report cited several exceptions including identification of a transaction that did not qualify as a payable but was reported as one and the failure to report certain payables in the accounting system. Our review of the 2013 reporting package also identified a transaction incorrectly included in the reported payable balance and certain payable balances in the general ledger that were not included on the reporting package.

We recommend that the Department implement additional procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Department's accounting records, and independently reviewed for accuracy and completed in accordance with instructions.

Agency Response:

The Agency concurs and corrective action has been taken.

Authorized Attorney Fees

The prior report cited several exceptions including identification of a transaction that did not qualify as a payable but was reported as one and the failure to report certain payables in the accounting system. Our review of the 2013 reporting package also identified a transaction incorrectly included in the reported payable balance and certain payable balances in the general ledger that were not included on the reporting package.

We recommend that the Department implement additional procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Department's accounting records, and independently reviewed for accuracy and completed in accordance with instructions.

Agency Response:

The Agency concurs and corrective action has been taken.

Journal Entry Posting

For one of twenty-five journal entries randomly selected for testing, amounts posted to the accounting system in applicable subfunds did not match the supporting documentation. The purpose of the journal entry was to allocate one day's revenue from the unclassified revenue account to the proper accounts and subfunds. Probation and Parole Supervision Fee (SCEIS account 4370140000) for subfund 3035 was posted to subfund 3269 and the fee for subfund 3269 was posted to subfund 3035.

The result of the posting error was a \$569 revenue overstatement in subfund 3269 and understatement in subfund 3035.

To prevent misstatements in the accounting system, effective internal controls should include controls designed to detect and timely correct errors, such as an independent review to ensure the accuracy of data entry.

We recommend the Department review its current procedure for review and approval of journal entries to ensure the controls are operating effectively to prevent posting errors.

Agency Response:

The Agency concurs and corrective action has been taken.

Sincerely,

A handwritten signature in black ink, appearing to read "Sonya T. Bookard", with a long horizontal line extending to the right.

Sonya T. Bookard
Deputy Director for Administration

Cc: Cheryl Mack Thompson, Assistant Deputy Director for Administration

4 copies of this document were published at an estimated printing cost of \$1.69 each, and a total printing cost of \$6.76. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.