

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 2, 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, 2014, 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 twenty-five 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 twenty-five 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, \$119,900 – earmarked fund, and \$6,000 – 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 twenty-five 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 twenty-five 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 (\$136,800 – general fund, \$138,200 – earmarked fund, and \$6,700 – federal fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and 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 fifteen selected new employees and nine individuals 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 (\$136,800 – general fund, \$138,200 – earmarked fund, and \$6,700 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Transfers**

- We inspected twenty-five recorded journal entries and four 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 transfers. We found no exceptions as a result of the procedures.

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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 finding as a result of these procedures is presented in Reporting Packages 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, 2014, 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.

The Honorable Nikki R. Haley, Governor
and
Mr. Jerry B. Adger, Director
South Carolina Department of Probation,
Parole and Pardon Services
June 2, 2015

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, 2013, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Reporting Packages and Schedule of Federal Financial Assistance 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., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

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

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

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, 2013 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 2014 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following describes the exceptions noted during the current year engagement.

Miscellaneous Revenues Reporting Package

The Department misclassified its current and non-current receivable balances on form 3.04.3. In addition, the receivable balances were reported at gross instead of net, an overstatement of approximately \$2.9 million. The Department's agreed upon procedures report for the fiscal year ended June 30, 2013 reported a similar finding with respect to misclassification of receivables between current and non-current.

These errors occurred as a result of misinterpretation of Comptroller General's Office instructions.

Operating Leases Reporting Package

Our testing of the 2014 reporting package disclosed exceptions associated with the Department's calculation of current year lease expense which we determined to be understated by approximately \$8 thousand. Also, the Department understated the future minimum lease payments for one of four new leases tested by approximately \$350. A similar finding was reported in the Department's June 30, 2013 agreed upon procedures report.

Department staff explained that these clerical errors were the result of oversight when completing the reporting package.

We recommend the Department implement additional procedures to ensure compliance with the Comptroller General's Reporting Policies and Procedures Manual.

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.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Department reported the wrong source code for grant number 2010-RR-BX-K001 on its 2014 SFFA. The Department used source code “c” - funds received from state agencies included in the reporting entity instead of source code “b” - funds received from a nonfederal entity not included in the reporting entity. Additionally, the Department used an incorrect CFDA number for the grant. The Department’s June 30, 2013 agreed upon procedures report included a finding related to the use of incorrect source codes. Based on discussions with Department personnel the errors identified on the SFFA were the result of oversight and misinterpretation of the State Auditor’s letter of instructions.

We recommend the Department implement procedures to ensure that its SFFA is completed in accordance with the State Auditor’s letter of instructions.

NEW HIRE PAYMENT

One of fifteen newly hired employees selected for testing was overpaid approximately \$138 on their first check. The employee transferred to the Department from another state agency and, according to Department personnel, had overtime hours flagged in SCEIS from the previous agency at the time of transfer. The Department did not detect the overpayment when the payroll was processed and paid the overtime hours earned by the employee while employed at the previous agency.

Effective internal controls require safeguards to ensure that transactions are properly reviewed and approved to ensure proper payment.

We recommend the Department strengthen its policies and procedures over payroll expenditures to ensure that the payments are for wages earned.

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, 2013, and dated January 26, 2015. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated Reporting Packages and Schedule of Federal Financial Assistance in Sections A and B of this report.

MANAGEMENT'S RESPONSE

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

Nikki R. Haley
Governor



Jerry B. Adger
Director

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June 23, 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, 2014 and authorize the release of the report.

Listed below are the agency responses to the report findings.

REPORTING PACKAGES

Miscellaneous Revenue Reporting Package:

The Department misclassified its current and non-current receivable balances on form 3.04.3. In addition, the receivable balances were reported at gross instead of net, an overstatement of approximately \$2.9 million. The Department's agreed upon procedures report for the fiscal year ended June 30, 2013 reported a similar finding with respect to misclassification of receivables between current and non-current.

These errors occurred as a result of misinterpretation of Comptroller General's Office instructions.

Agency Response:

The Agency concurs and corrective action has been taken.

Operating Leases Reporting Package:

Our testing of the 2014 reporting package disclosed exceptions associated with the Department's calculation of current year lease expense which we determined to be understated by approximately \$8 thousand. Also, the Department understated the future minimum lease payments for one of four new leases tested by approximately \$350. A similar finding was reported in the Department's June 30, 2013 agreed upon procedures report.

Department staff explained that these clerical errors were the result of oversight when completing the reporting package.

We recommend the Department implement additional procedures to ensure compliance with the Comptroller General's Reporting Policies and Procedures Manual.

Agency Response:

The Agency concurs and corrective action has been taken.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Department reported the wrong source code for grant number 2010-RR-BX-K001 on its 2014 SFFA. The Department used source code "c" - funds received from state agencies included in the reporting entity instead of source code "b" - funds received from a nonfederal entity not included in the reporting entity. Additionally, the Department used an incorrect CFDA number for the grant. The Department's June 30, 2013 agreed upon procedures report included a finding related to the use of incorrect source codes. Based on discussions with Department personnel the errors identified on the SFFA were the result of oversight and misinterpretation of the State Auditor's letter of instructions.

We recommend the Department implement procedures to ensure that its SFFA is completed in accordance with the State Auditor's letter of instructions.

Agency Response:

The Agency concurs and corrective action has been taken.

NEW HIRE PAYMENT

One of fifteen newly hired employees selected for testing was overpaid approximately \$138 on their first check. The employee transferred to the Department from another state agency and, according to Department personnel, had overtime hours flagged in SCEIS from the previous agency at the time of transfer. The Department did not detect the overpayment when the payroll was processed and paid the overtime hours earned by the employee while employed at the previous agency.

Effective internal controls require safeguards to ensure that transactions are properly reviewed and approved to ensure proper payment.

We recommend the Department strengthen its policies and procedures over payroll expenditures to ensure that the payments are for wages earned.

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 flourish extending to the right.

Sonya T. Bookard

Deputy Director for Administration

cc: Cheryl Mack Thompson, Assistant Deputy Director for Administration

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