

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 18, 2009

The Honorable Mark Sanford, Governor
and
Mr. Samuel B. Glover, 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, 2008, 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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level 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 (\$27,500 – general fund, \$106,200 – earmarked fund, and \$9,300 – federal fund) and \pm 10 percent.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked 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 (\$101,000 – general fund, \$108,200 – earmarked fund, and \$9,300 – federal fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

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- 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 Payroll in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, and all 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 journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations and Composite Reservoir Account in the Accountant's Comments section of this report.

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7. **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.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, 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 Reconciliations in the Accountant's Comments section of this report.

10. **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, 2007, to determine if the Department had taken corrective action.

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

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Mr. Samuel B. Glover, Director
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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 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.

UNTIMELY DEPOSIT

One of twenty-five receipt transactions randomly selected for testing was not deposited in a timely manner as defined by Proviso 72.1 of the 2008 Appropriation Act. The receipt was collected on April 18, 2008 and was deposited on May 7, 2008.

Proviso 72.1 of the 2008 Appropriation Act states, "For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State."

We recommend the Department implement procedures to ensure compliance with Proviso 72.1.

OBJECT CODE

One of the twenty-five non-payroll disbursement transactions randomly selected for testing was processed using the wrong object code. The expenditure transaction was recorded using object code 0301 (Office Supplies) instead of object code 0399 (Other Supplies) for the purchase of state service pins.

Section 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines object codes for expenditures.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS expenditure object codes.

PAYROLL

Payroll Deduction

The Department was unable to provide the authorization or consent form for an employee's 401K plan deduction for one of the twenty-five payroll transactions randomly selected for testing.

Chapter 23 of Title 8 of the South Carolina Code of Laws requires consent of the employee to defer a portion of his compensation to a plan such as a 401K.

We recommend the Department develop procedures to ensure that all voluntary deductions are supported by employee authorizations.

Termination Pay

We noted two exceptions associated with the annual leave payout for one of the twenty-five randomly selected terminated employees tested. The Department paid an employee his accrued annual leave even though he was transferring to another state agency without a break in state service. Additionally, the leave pay out was based on the employee's base salary. The payout did not include his temporary salary adjustment which was in effect at termination.

Section 19-709.04 of the South Carolina Office of Human Resources regulations requires that an employee who transfers without a break in service from one agency to another shall transfer earned annual leave.

We recommend that the Department follow State Office of Human Resources regulations for all termination payments.

RECONCILIATIONS

Monthly reconciliations are performed between the Department books and the books of the Comptroller General's Office as required by the Statewide Accounting and Reporting (STARS) Manual. The prior year report included a comment explaining how the Department had not corrected an item identified on its monthly reconciliation. During the current engagement we determined that the Department's current reconciliations included the same reconciling item identified in the prior year. We also noted that expenditures were misstated and/or misclassified between two project and phase codes on the June 30, 2008 Comptroller General's CSA467 report and on the Schedule of Federal Financial Assistance filed with the Office of the State Auditor. The error was not identified for correction because the Department's reconciliation procedures did not include reconciling federal expenditures by project and phase code.

Section 2.1.7.20 of the STARS Manual requires agencies perform monthly reconciliations. Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance by Subfund, Project, and GLA) and the agency's records for each project and phase code. In addition, it requires timely correction of errors.

We recommend the Department perform reconciliations in accordance with the STARS Manual instructions, and correct all reconciling items as soon as practicable. The reviewer should ensure that all reconciling items are explained and corrected.

COMPOSITE RESERVOIR ACCOUNTS

We determined the Department's reconciliation process over composite reservoir accounts to be ineffective. The Department traces deposits and checks issued from its general ledger accounts to the State Treasurer's month-end reports, but the Department does not reconcile the month-end cash balance to the State Treasurer's report and they do not agree electronic funds transfers from the State Treasurer's report to its general ledger accounts. The incomplete reconciliation process weakens the Department's internal controls and hinders their ability to detect errors and irregularities.

Management of the Department is responsible for developing and implementing control procedures that will timely detect and correct errors. Performance of monthly bank reconciliations help management identify unrecorded transactions, input errors, unauthorized transactions, etc.

We recommend the Department develop and implement procedures to ensure that monthly reconciliations are performed on all composite bank accounts. The procedures should require formal reconciliations that are performed shortly after month-end. The reconciliation should identify and explain reconciling differences. It should also document who prepared the reconciliation, date it was prepared, name of the person who reviewed the reconciliation and the date it was reviewed.

CLOSING PACKAGES

Section 1.7 of the Comptroller General's Closing Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." Our testing of the Department's closing packages disclosed the following exceptions:

Closing Package Control Checklist

Two exceptions were noted during our review of the Control Checklist. The checklist was prepared and submitted to the Comptroller General's Office two days after the due date. Additionally, on the schedule of payments submitted as required to provide payroll information to the Comptroller General's Office, one of the payment amounts reported did not agree to the supporting documentation. The amount reported for June 2008 payroll payments paid in August 2009, exceeded supporting documentation by \$1,250. Department personnel could not explain why the supporting documentation did not agree with the checklist.

Section 2.01 of the Comptroller General's GAAP Closing Procedures Manual provides instructions for the proper completion of the Closing Package Control Checklist, including due date for closing packages.

Compensated Absences Closing Package

During our review of the Department's leave liability report, we noted that the Department did not report all earned compensatory leave. As a result the compensated leave package was understated approximately \$24,000.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual explains the State's policy for recording the compensated absences liability, which includes accumulated unused compensatory time for all employees at June 30.

Capital Assets Closing Package

The Department incorrectly recorded amounts as net corrections on the closing package. A portion of the net correction amount reported was for a current year addition and should have been reported in the additions column. The remaining portion of the net correction had already been applied to the asset balances and therefore should not have been reported as a net correction. The end-of-year asset balance was misstated by approximately \$10,000.

Recommendation

We recommend that the Department develop and implement procedures to ensure that all closing packages are completed in accordance with the GAAP Closing Procedures Manual instructions. Furthermore, we recommend that the Department make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

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 for the fiscal year ended June 30, 2007, and dated August 4, 2008. We determined that the Department has taken adequate corrective action on the finding Pay Period. We have repeated the finding Reconciliations.

MANAGEMENT'S RESPONSE

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

MARK SANFORD
Governor



SAMUEL B. GLOVER
Director

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January 20, 2010

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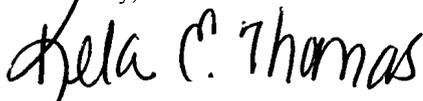
Dear Mr. Gilbert:

This letter is in response to the Accountant's Comments in the Agreed -Upon Procedures Report for the period ending June 30, 2008, for the South Carolina Department of Probation, Parole and Pardon Services.

We concur with all of the findings noted and will implement the necessary changes to our current policies and procedures to correct the noted deficiencies.

The South Carolina Department of Probation, Parole, and Pardon Services appreciates your advice and assistance. It is our commitment to continue to be good stewards of taxpayers' dollars while ensuring that our financial reporting is accurate and timely.

Sincerely,



Kela E. Thomas
Deputy Director for Administrative Services

cc: Samuel Glover, Director
Cheryl Mack Thompson, Director of Fiscal and Materials Management

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