

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2010

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 30, 2011

The Honorable Nikki R. Haley, Governor
and
Ms. Kela Thomas
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, 2010, 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. Effective November 1, 2009 the agency implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

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- We compared current year recorded revenues at the subfund and object code 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, \$155,300 – earmarked fund, and \$22,300 – 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. Effective November 1, 2009 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- 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 (\$96,100 – general fund, \$148,200 – earmarked fund, and \$20,800 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Expenditure Codes 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. Effective November 1, 2009 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.

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- 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. Effective November 1, 2009 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- We compared current year payroll 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 (\$96,100 – general fund, \$148,200 – earmarked fund, and \$20,800 – 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 findings as a result of these procedures are presented in Termination Pay 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. Our finding as a result of these procedures is presented in Pushdown Adjustments and Operating Transfers 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 Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, 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 finding as a result of these procedures is presented in Miscellaneous Revenues Closing Package 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, 2010, 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.

8. **SCEIS Implementation**

- We compared cash, revenue and expenditure account closing balances from the agency's legacy system to opening balances input into SCEIS to ensure that the agency carried forward the proper account balances to SCEIS.

Our finding as a result of these procedures is presented in Pushdown Adjustments and Operating Transfers in the Accountant's Comments section of this report.

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 Department resulting from our engagement for the fiscal year ended June 30, 2008 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, 2009.

Our findings as a result of these procedures are presented in Expenditure Codes and Termination Pay in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Ms. Kela Thomas
South Carolina Department of Probation,
Parole and Pardon Services
August 30, 2011

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 Department 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.

EXPENDITURE CODES

One of the twenty-five non-pay roll disbursement transactions randomly selected for testing was processed using the incorrect expenditure code. The expenditure pertained to a late fee charged on a phone bill. The Department recorded the transaction using an object code for a telephone expenditure instead of using an object code for Interest Expense – Late Payment.

While performing other analytical procedures we noted that the Department recorded an expenditure transaction for data processing services to an Equipment (Non-Capital) expenditure code. The proper expenditure account was Data Process Service.

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

We recommend the Department implement procedures to ensure that personnel responsible for preparing accounting transactions use proper accounting codes and that transactions be independently reviewed to ensure accuracy.

TERMINATION PAY

For two out of twenty-five employees tested in our test of termination pay, we determined the Department underpaid the employees a total of \$382. The Department used an incorrect salary rate for one employee calculation and used an incorrect hourly rate to calculate the final annual leave payout of the other employee.

A well-design internal control system includes controls to ensure the accuracy and completeness of information; procedures to ensure that calculation are supported by source documentation; and an independent review of calculation and verification of support documentation used in the those calculation.

We recommend the Department develop and implement procedures to ensure that payments to employees are correctly calculated. The procedures should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to supporting documentation.

MISCELLANEOUS REVENUES CLOSING PACKAGE

During our testing of the Miscellaneous Revenue Closing Package, we noted that the Department did not properly calculate the allowance for uncollectible accounts receivable. The Department used the prior year accounts receivable rate for the current year closing package.

Section 3.4 of the Comptroller General's GAAP Closing Procedures Manual explains the State's policy calculating the uncollectible accounts receivable percentage includes gathering historical data on the collection of past accounts receivable and evaluating the collectability of accounts receivable at June 30 based on the historical data.

We recommend the Department develop and implement procedures to ensure that all closing packages are completed in accordance with the GAAP Closing Procedures Manual instructions.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

PUSHDOWN ADJUSTMENTS AND OPERATING TRANSFERS

During fiscal year 2010 the Department implemented a new accounting system. The implementation occurred after the start of the fiscal year. Therefore adjustments were necessary to input fiscal year to date summary data that was processed on the Department's legacy system. These entries were called pushdown adjustments. The Department could not provide supporting documentation for three pushdown adjustments and one operating transfer that we tested. In addition, the tested documents did not contain evidence of agency approval. Department staff explained that these entries were initiated by SCEIS implementation team to assist the Department in processing transactions and correcting errors. However, SCEIS personnel did not provide the Department with supporting documentation or work-flow the transactions to the Department for approval.

Effective internal controls include supporting documentation adequate to support journal entries as well as evidence of approval by responsible personnel.

We recommend the Department implement procedures to ensure that all accounting transactions processed through its accounting system be supported by source documentation and be approved by appropriate Department personnel.

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 for the fiscal year ended June 30, 2008, and dated August 18, 2009. (We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009). We determined that the Department has taken adequate corrective action on each of the findings Untimely Deposits, Reconciliations, Closing Packages and Payroll Deduction. We have repeated the findings Expenditure Code and Termination Pay.

MANAGEMENT'S RESPONSE

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

NIKKI R. HALEY
Governor



KELA E. THOMAS
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December 1, 2011

Office of the State Auditor
Attn: Richard Gilbert, Jr., CPA
1401 Main Street, Suite 1200
Columbia, SC 29201

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, 2010, 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,

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 Administrative Services

cc: Kela E. Thomas, Director
Cheryl Mack Thompson, Director of Fiscal and Materials Management

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.