SOUTH CAROLINA DEPARTMENT
OF
PROBATION, PAROLE AND PARDON SERVICES

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2003

CONTENTS

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 8, 2004

The Honorable Mark Sanford, Governor
and
Mr. Samuel 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, 2003, 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
   - 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
   - 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
   - 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 internal controls over these transactions were adequate.
   - 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.
   - We compared current year recorded payroll expenditures to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

4. **Journal Entries**
   - We inspected selected recorded journal entries to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

   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, 2003, 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 they were accurate and complete. 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 finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Compliance**
   - We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2003.

   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, 2003, 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; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

   We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2003, 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

   We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**
    - We inquired about the status of the deficiency described in the finding 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, 2002, to determine if adequate corrective action has been taken.

    We found no exceptions as a result of the procedures.

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 areas, 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.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

JOURNAL ENTRIES

The Department could not locate two journal entries that we selected to test. In addition one journal entry did not document agency approval, and two journal entries did not have supporting documentation.

The missing journal entries were recorded in the Department's accounting system, but the journal entry documents could not be found. The entries lacking support did not include adequate descriptions or other documentation explaining the purpose of the entry.

Sound business practices require source documents to be filed and retained. Effective internal controls require journal entries to be approved prior to posting to the Department's accounting system. Also, effective internal controls require journal entries to be properly supported by source documentation. The purpose of the entry should be clear and the amounts in the entry should agree to the support.

We recommend the Department develop procedures to ensure adequate safeguards over accounting transactions, document agency reviews and approvals of journal entries, and ensure that supporting documentation is readily available to substantiate the purpose of the entry.

RECONCILIATIONS

Our review of the Department's reconciliations revealed nine of thirteen reconciliations were prepared untimely. The year-end reconciliation, did not agree to the Comptroller General (CG) 424 report (Summary of Expenditures – by Program) for one account.

We were told the cause of the untimely reconciliations was due to the accounting personnel's workload and personnel transitions. The account that did not agree to the CG report was overlooked by the preparer and reviewer of the reconciliation; and therefore no correction was made.

The State's Accounting and Reporting Manual (STARS Manual), section 2.1.7.20 states, "To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be performed at least monthly on a timely basis (i.e. shortly after month-end)."

We recommend the Department ensure that all reconciliations are prepared timely, complete and that all reconciling items are investigated and resolved.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2002, and dated August 26, 2003. We determined that the Department has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE

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

MARK SANFORD
Governor

SAMUEL GLOVER
Director

2221 DEVINE STREET, SUITE 600
POST OFFICE BOX 50666
COLUMBIA, SOUTH CAROLINA 29250
Telephone: (803) 734-9220
Facsimile: (803) 734-9440
www.state.sc.us/pp

November 8, 2004

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Ste. 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft copy of the report resulting from your performance of the agreed-upon procedures review of our financial records for fiscal year-ended June 30, 2003. We concur with your findings and authorize release of the report. Steps have been taken to develop procedures to ensure adequate safeguards concerning all exceptions noted in your report.

Thank you for a most professional audit experience.

Sincerely,

Samuel B. Glover
Director

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

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