

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

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 1, 2000

The Honorable James H. Hodges, Governor
and
Mr. Stephen K. Benjamin, 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, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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2. We tested 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 and if internal controls over the tested disbursement transactions were adequate. We also tested 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all appropriation transfers 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. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested 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 tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable James H. Hodges, Governor
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6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested 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 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested 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 1999. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the State Comptroller General. We reviewed 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. Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed 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.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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

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

COMPENSATED ABSENCES CLOSING PACKAGE

The Department is required to submit GAAP (generally accepted accounting principles) closing packages to the Comptroller General's Office at the end of each fiscal year. The requirements and instructions are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting ... closing package forms ... that are: •Accurate and completed in accordance with instructions." The Department submitted an inaccurate compensated absences closing package for fiscal year 1999.

The Department used incorrect leave balances for approximately 280 of its more than 900 employees when calculating its annual leave liability. GAAP Manual Section 3.17 instructs preparers to calculate the salaries/wages portion of the annual leave liability by multiplying each employee's actual unused annual leave balance at year-end by the employee's pay rate in effect at year-end. However, the Department calculated the liability by multiplying the employee's rate by the lesser of (1) the employee's actual annual leave balance at year-end or (2) 45 days less annual leave taken between January 1 and June 30. As a result, the Department understated its annual leave liability on its compensated absences closing package by \$353,465.

The Department also did not accrue annual leave for the month of May for 12 employees who began employment on May 17, 1999, and worked 11 of the 21 workdays in May. This resulted in a \$1,274 understatement of the annual leave liability. State Human Resources Regulation 19-703.07 B states the following:

Employees shall not be credited with leave earnings for any months in which they are not in pay status one-half or more of the workdays of the month. Employees who are in pay status one-half or more but not all of the workdays of the month shall be credited with leave earnings for the full month. If they are in pay status for less than one-half the workdays, they shall receive no credit.

Furthermore, six employees who were hired during June 1999 and who earned annual leave for the month were not included in the June 30 leave liability report. As a result, the compensated absences liability at June 30 was understated by \$636.

We recommend the Department carefully review and follow GAAP Manual instructions and guidance when preparing closing package forms. The Department should provide adequate training of those employees who complete and independently review closing packages to help ensure they are knowledgeable of GAAP and the guidance for preparation of closing packages. The responsible supervisor who performs the independent review of a closing package should trace each amount on each form to the supporting documentation and check computations for mathematical accuracy. We also recommend that the Department implement procedures to ensure it properly applies State leave policy for employees in pay status for less than all workdays in the month.

MANAGEMENT'S RESPONSE

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

JIM HODGES
Governor

STEPHEN K. BENJAMIN
Director



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June 29, 2000

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft copy of the report resulting from your performance of an agreed-upon-procedures review of our accounting records for fiscal year ended June 30, 1999. We concur with the findings and authorize release of the report. Steps have been taken to ensure proper completion of the Compensated Absences Closing Package and to ensure accurate leave accruals.

The auditors who reviewed our records were a pleasure to host.

Sincerely,

A handwritten signature in cursive script that reads "Steve".

Stephen K. Benjamin
Director

SKB:ls

cc Sandy Gibson, Office of Internal Audit
Kela Thomas, Deputy Director for Administration