

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

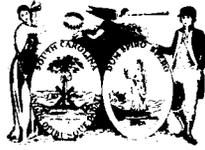
STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 26, 2003

The Honorable Mark Sanford, Governor
and
Mr. Stephen G. Birnie, Chief of Staff
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, 2002, 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. 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 we used estimations and other procedures to test 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; if the acquired goods and/or services were procured in accordance with applicable 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 recorded 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. Our finding as a result of these procedures is presented in Funding of Salary in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and interagency 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 individual journal entries selected for testing were chosen randomly and judgmentally to include routine and unusual items. We found no exceptions as a result of the procedures.

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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.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2002, 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 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. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. 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 2002. 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, 2002, 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. We found no exceptions as a result of the procedures.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, 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.

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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 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

MATERIAL WEAKNESS AND/OR VIOLATION 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.

FUNDING OF SALARY

During the engagement, we compared the actual funding source(s) from which 25 payroll transactions were paid to the approved funding source(s) documented on the Office of Human Resources Profile forms. We found that the funding source for one employee's salary did not agree with the funding source documented on the employee profile form. The Department charged the employee's salary to "State" funds instead of "Other" or earmarked funds. Consequently, from February 1999 through June 2003 the Department paid from state funds approximately \$139,000 (plus the related employer contributions) that should have been charged to earmarked funds. In fiscal year 2004 the Department prepared a journal entry to correct the funding source error related to fiscal year 2004 personal service expenditures.

The Office of Human Resources Profile form is the primary form used for reporting and maintaining statewide position and employee information. Therefore, it is critical that all information be reported on an accurate and timely basis. Also, a strong system of internal controls requires that all transactions be properly supported.

We recommend that the Department exercise greater care when inputting employee funding source information. The Department should implement procedures to ensure that payroll records, including those relating to funding source, are checked for accuracy and verified with appropriate documentation by someone other than the preparer and that each employee's semi-monthly pay is charged to the documented funding source.

MANAGEMENT'S RESPONSE

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

MARK SANFORD
Governor



STEPHEN G. BIRNIE
Chief of Staff

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December 11, 2003

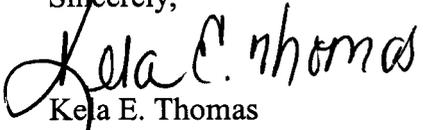
Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

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 20, 2002. We concur with the findings and authorize release of the report. Steps have been taken to ensure proper management of the funding of salary.

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

Sincerely,


Keja E. Thomas
Deputy Director for Administration

KET;lhg

cc: Stephen G. Birnie, Chief of Staff
Cheryl Thompson, Director of Fiscal Management

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