SOUTH CAROLINA
LAW ENFORCEMENT DIVISION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1999

CONTENTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 14, 2000

The Honorable James H. Hodges, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Chief and management of the South Carolina Law Enforcement Division, solely to assist you in evaluating the performance of the Division 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. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Revenue Retention and Carry-Forward Authority and Classification of Accounting Transactions in the Accountant's Comments section of this report.

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 Division, 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 on 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. Our findings as a result of these procedures are presented in Expenditures, Discretionary Fund, and Classification of Accounting Transactions in the Accountant's Comment's section of this report.

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 on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing recorded current year payroll expenditures to those of the prior year; comparing the percentage change in total personal service expenditures to the percentage change in total employer contributions; and comparing the computed percentage distribution of recorded fringe benefit expenditures by fund source 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 findings as a result of these procedures are presented in Payroll Calculations and Classification of Accounting Transactions in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries and operating transfers and all recorded 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 and operating transfers 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 Division 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 judgementally. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 1999, and tested selected reconciliations of balances in the Division'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 Division'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 Division's accounting records and/or in STARS. The reconciliations selected for testing were chosen judgementally. Our finding as a result of these procedures is presented in Classification of Accounting Transactions in the Accountant's Comments section of this report.

7. We tested the Division'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. Our findings as a result of these procedures are presented in Expenditures, Closing Packages, Revenue Retention and Carry-Forward Authority, Payroll Calculations, and Classification of Accounting Transactions.

8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Division resulting from our engagement for the fiscal year ended June 30, 1998, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Expenditures, Closing Packages, Revenue Retention and Carry-Forward Authority, Payroll Calculations, Discretionary Fund and Classification of Accounting Transactions in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Division 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 findings as a result of these procedures are presented in Expenditures and Closing Packages in the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Division 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. Furthermore, 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 Division'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 Chief and management of the South Carolina Law Enforcement Division 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.

EXPENDITURES

In testing the Division's accounts payable closing package, we identified eight vouchers totaling $11,000 for which the Division received goods and services in fiscal year 1999 but did not pay for them until fiscal year 2000. For four of the vouchers ($5,337), the Division stated that invoices were requested from the vendor but were not received in sufficient time for processing in fiscal year 1999. (The Division could not tell us when the vendor contacts were made.) However, the Division should have had sufficient time to request and receive the invoices because those goods/services were received in May and June 1999.

Receiving reports should be prepared the same day the goods/services are received. When that practice is followed, the receiving report preparation date and the receiving date are the same. However, the receiving reports for three of the eight vouchers ($5,216) had fiscal year 2000 receiving dates which differed from information on other supporting documentation. On two of the receiving reports, the Accounting Manager had noted that, per discussion with the Building Engineer, the goods/services were received on or before June 30. The invoice related to the third receiving report indicated the services were provided on June 17 and 18. Based on our review of the supporting documentation, it is likely that the departments received the goods and services on or before June 30 but did not prepare and forward the receiving reports to the accounting department in a timely manner. Documentation for the eighth voucher included a $447 invoice which showed it was received on May 24, 1999, and the goods and services were received on May 10, 1999. We were unable to determine why this invoice was not processed timely and paid in the proper fiscal year.

During our test of the Division-prepared fiscal year 1999 fixed assets closing package, we determined the Division capitalized $1,197 in equipment items that were paid for in the next fiscal year. The invoices for the equipment were dated April 18, 1999. We were unable to determine from other supporting documentation (including the receiving reports) when the goods were received. In response to our inquiries about the discrepancies, the Division confirmed to us that the equipment was received in fiscal year 1999, which is likely based on the invoice dates.

We tested a sample of 25 expenditure transactions and found one instance in which the Division paid for $6,500 of goods and services received on June 19, 1998, (a fiscal year 1998 obligation) in fiscal year 1999. We were told the agency contacted the vendor for an invoice but the Division could not tell us when the request was made. The invoice was received by facsimile on August 24, 1998, but not paid until October 19, 1998, 38 workdays later.

Similar findings were described in the State Auditor's Reports for fiscal years 1997 and 1998.

Proviso 72.3 of the 1998-99 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this Part, if so much is necessary, are appropriated … to meet the ordinary expenses of the state government for Fiscal Year 1998-99, and for other purposes specifically designated." Furthermore, Section 11-35-45 of the Code of Laws of South Carolina 1976, as amended, requires all vouchers to be delivered to the Comptroller General within 30 work days from acceptance of the goods/services and proper invoice.

We again recommend the accounting department develop and implement procedures to help ensure that the Division timely and properly completes receiving reports; timely processes invoices for payment; and pays for goods/services in the fiscal year in which they are received. Such procedures should include preparing the receiving report on the date goods/services are received; properly documenting the dates of receipt of goods/services and of invoices; promptly forwarding receiving reports (and invoices, when vendors send them to departments);

contacting vendors at fiscal year-end for invoices for goods and services received through June 30; preparing and maintaining records of such vendor contacts; and issuing fiscal year close-out instructions to its departments reminding them of fiscal year-end cut off dates and to immediately complete and forward to accounting any vendor invoices and all receiving reports. The accounting department should always follow up with the receiving department when the receiving date isn't properly documented or is inconsistent with other supporting documentation. This follow-up should be thoroughly documented (interviewee and date of interview, information obtained, interviewer's signature).

CLOSING PACKAGES

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends an effective review of each closing package and the underlying working papers to minimize closing package errors and omissions. To assist in performing effective reviews, the GAAP Manual instructions require a reviewer checklist to be completed for each closing package submitted.

Operating Leases

The Division incorrectly classified a lease agreement with a bargain purchase option as an operating lease. Section 3.19 of the GAAP Manual states that a lease with a bargain purchase option should be reported as a capital lease. We were told that the preparer of the lease register did not notice that the lease agreement contained a bargain purchase option. Other lease closing package errors were noted in prior State Auditor's Reports.

We again recommend that lease registers be completed and reviewed by staff trained in lease accounting and thoroughly familiar with GAAP Manual and State Treasurer guidance and instructions to ensure that all leases are properly classified and reported. The reviewer should ensure that the four criteria for determining the classification of leases have been properly applied.

Miscellaneous Revenues

In prior State Auditor's Reports, we noted that the Division did not report an allowance for uncollectible receivables as required by Section 3.4 of the GAAP Manual. The GAAP Manual provides guidance for estimating allowances by receivables category by evaluating collectibility at June 30 based on historical data and for reporting deferred revenue for cash collected in advance of the services being performed. The Division reported accounts receivables of $211,212 and an allowance of $248 at June 30, 1999. The Division calculated the allowance by averaging the write-offs for the past four years. However, this method does not appear reasonable because the Division does not have a specific policy for determining write-offs (e.g., aging accounts receivable and writing off accounts at a specific age). Also, the allowance seems insufficient based on our review. We reviewed sixteen accounts receivable balances of which two were significantly past due. One $10,650 receivable was comprised of four invoices dated between April 9, 1998, and July 2, 1998. Another receivable ($1,725) covered two invoices dated August 4, 1998, and August 7, 1998. We requested a report of accounts receivable from the Division in order to determine the age and significance of individual account balances and of total receivables at June 30, 1999. The Division did not provide the requested detail because it does not maintain this information on a readily available basis.

We also discovered that the Division's accounts receivable reports included customer credit balances of $7,197 which, for reporting on the closing package, were netted against the gross receivables balance. This resulted in an understatement of accounts receivable and deferred revenue. (The Division applies such credits to future customer charges.)

Sound accounting practices require that written policies regarding collection and write-off of receivables and the valuation policy and methodology for allowances for uncollectible balances be in place, operating effectively, and applied consistently. Policies should be periodically reviewed (and modified, if appropriate, for changes in credit policy, collection history, and other factors).

We recommend the Division develop and implement policies regarding granting credit; the collection of receivables and write-off of uncollectible accounts; and the valuation of its estimated allowance for uncollectible balances. Such policies should include maintaining information on its collection history and periodically aging accounts receivable to identify accounts for write-off. Finally, the Division should report credit accounts receivable balances as deferred revenue in accordance with GAAP.

Fixed Assets

The Division failed to report an equipment purchase of $7,306 as an addition to fixed assets on the General Fixed Assets Summary Form and the Fixed Asset Additions Reconciliation Form. Also, the Division reported $122,707 in transfers of fixed assets to other state agencies as retirements on the General Fixed Assets Summary Form. These errors appear to result from poor communication between accounting and fixed assets personnel. (Similar findings were noted in the State Auditor's Report for fiscal year 1998.)

Section 3.8 of the GAAP Manual instructs agencies to report fixed assets donated to another state agency as intra-state transfers. Also, Sections 3.8 and 3.10 of the GAAP Manual provide guidance on reporting equipment purchases as fixed asset additions.

We recommend the Division establish procedures to ensure that fixed asset transactions and balances are properly reported on the closing packages. Those procedures should include reconciling information maintained by accounting and fixed assets personnel. The Division's written procedures should outline the policies for classifying and recording fixed asset transactions and the responsibilies of the various departments for the purchase, tagging, and recording of fixed assets, recording other capital asset transactions, and maintaining fixed asset records.

Accounts Payable

During our review of the 1999 fixed assets closing package, we determined the Division capitalized $1,197 of equipment paid for in fiscal year 2000, yet the accounting department omitted the related invoices from the accounts payable closing package. When we asked for an explanation, we were told the invoices, both dated April 18, 1999, were omitted because they were not received in sufficient time to include them on the closing package. Based on the invoice dates, however, it is likely the billings were timely received. Furthermore, had the vendors not promptly sent the invoices, based on the receiving reports, the Division should have requested the invoices. If that didn't result in action, the agency should have estimated the liabilities based on vendor-quoted prices.

Section 3.12 of the GAAP Manual requires that expenditures for goods and services received on or before June 30 and paid for after June 30 in the new fiscal year be classified as accounts payable.

We recommend that the Division establish procedures to ensure that all accounts payable at June 30 are properly identified and reported on the accounts payable closing package. The Division's procedures should require departments to immediately submit receiving reports to the accounting department and the accounting department to contact vendors to request invoices, when billings for received goods/services are not timely received, especially at year-end to ensure proper cutoff by fiscal year.

REVENUE RETENTION AND CARRY-FORWARD AUTHORITY

The following is an excerpt from the like-titled comment included in the State Auditor's Report on the South Carolina Law Enforcement Division (SLED or the Division) for fiscal year 1998.

> Section 23-3-50 of the South Carolina Code of Laws provides that "all revenue from fees and licenses received by the State Law-Enforcement Division related to enforcement and regulation of private detective and security companies ... gun dealers ... gun permits ... and massage parlors shall be remitted to the State Treasurer as collected and credited to the general fund of the State." Whereas, Code Section 40-17-160 provides that SLED should use fees collected from detective and private security agencies in the administration of Chapter 17 provisions applicable to those activities. Thus, State Law makes a distinction between the disposition of revenues from detective and security company fees and licenses "related to enforcement and regulation of private detective and security companies" and those to be used to administer the Division's responsibilities for that industry.
>
> While testing the Division's compliance with laws regarding collection and retention or remission of revenues, we found that for fiscal year 1998 the Division allocated Section 23-3-50 and 40-17-160 collections between operating revenues retained by the Division in its 3035 earmarked fund and amounts remitted to the State General Fund. However, the Division did not have documentation supporting its method of allocation.
>
> The Division stated that the allocation was made in accordance with Proviso 34.3 of the 1998 Appropriation Act which states, "The Department of Public Safety is hereby authorized to charge and collect additional license and registration fees for private detective businesses, private security businesses, including employees of these businesses, and companies which provide private security on their own premises. The funds generated will be retained by the Department and used for the purpose of providing additional security in the Capitol Complex area." We were told the Division believes that this proviso also

applies to it because it was responsible for Capitol Complex security prior to State government restructuring enacted in 1993 and because it continues to collect detective and security fees pursuant to Section 23-3-50 of the South Carolina Code of Laws. Therefore, in order to comply with the 1998 proviso, the Division transferred a portion of the fees to the Department of Public Safety. [We did not try to determine whether the "additional license and registration fees" in Proviso 34.3 to be collected by the Department of Public Safety (DPS) are part of or in addition to the detective and security company fees prescribed in Code Sections 23-3-50 and 40-17-160 to be collected by SLED.]

Because of the foregoing factors and the lack of supporting documentation for its allocations of fees, we were unable to determine whether the Division complied with the laws regarding collection, retention, and remittance of fees.

Each annual Appropriation Act (Proviso 72.50 of the 1999 and 2000 Acts) requires each agency to perform a jurisdictional audit to identify laws, regulations, and provisos that are not being used or relate to activities that no longer need to be regulated. Furthermore, the proviso requires the agency to draft proposed repeals for any laws identified in the process for submission to the General Assembly.

As of the date of this report, the condition described above still exists. We were told that the Division has determined, through communication with DPS, that the Division is responsible for collecting fees for private detective and security companies and transferring those fees to DPS. We were also told that the Division has taken steps through the legislative process to have the proviso in the annual Appropriation Act (Proviso 36.3 of the 1999 Appropriation Act and Proviso 34.3 of the 1998 Act) amended to authorize SLED, rather than DPS, to charge and collect the applicable fees. This amendment, if it becomes law, would be effective in fiscal year 2001.

We again recommend that the Division seek guidance from appropriate central state government agencies in determining the appropriate disposition of and allocation methods and accounting [in SLED's system and in the State's accounting system (STARS)] for fee collections and transfers. The Division should formally document the applicable legal authority to collect each fee type; its method of allocating each among its funds, the State

General Fund, and/or other agencies; and the restricted purposes, if any, for which the retained monies must be expended. The proposed amendment to Proviso 36.3 should include language authorizing the Division to transfer the funds to DPS and to stipulate the restricted use of those funds (i.e.- to provide additional security in the Capital Complex area). In addition, the Division should perform the required jurisdictional audit annually. Finally, we recommend the Division document its communications with appropriate Division personnel of additions, changes, and deletions to laws and regulations affecting the agency.

PAYROLL

Overtime Pay

We tested the accuracy of certain payroll transactions that included overtime pay. Five of the seven tested contained errors. Four of the errors occurred because, in computing the 40-hour base and overtime hours, annual, holiday, and/or sick leave time were included. State Human Resources Regulation 19-703.04 A. states that leave time, either holiday or other paid or unpaid leave, should not be included when calculating overtime hours. The other error occurred because the Division miscalculated the pay for a temporary employee who worked 42 hours in one pay period. The employee was paid for the full 42 hours at the regular pay rate plus two hours at the overtime rate, rather than 40 hours at the regular pay rate plus two hours at the overtime rate. The payment errors were not material but such occurrences indicate that accounting controls for overtime pay computations are not adequate to help ensure that errors do not occur but, if they do, employees will detect and correct any errors in a timely manner.

Termination Pay

Six of the 25 termination pay transactions tested contained errors that resulted in a total overpayment to five employees of $517 and one underpayment of $948.

Three of the overpayments occurred because the Division paid employees for their unused optional holidays. The Division told us that although that was a regular practice in the past, it was discontinued in December 1999. State Human Resources Regulation 19-703.06A. states that all employees of state government organizations, other than temporary hourly paid employees, shall be allowed to observe specified holidays with pay. Regulations 19-703.07 do not provide for payment at termination for an optional holiday. Because these employees terminated employment prior to their optional holidays, they forfeited this benefit.

Another overpayment occurred because the Division paid an employee for the entire pay period, when only nine of the eleven workdays in the pay period were actually worked.

The final overpayment occurred because the Division credited all of its eligible employees with annual leave earnings on May 14, 1999. That included an employee who terminated on May 14 and was in pay status for 10 of the 22 workdays in May. Section 19-703.07 B. of the <u>State Human Resources Regulations</u> states, "Employees shall not be credited with leave earnings for any months in which they are not in pay status for 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 work days of the month shall be credited with leave earnings for the full month." Consequently, this employee was paid for leave that had not been earned.

The underpayment occurred because the Division calculated the annual leave payment for a retiring employee based on a leave balance of 337.5 hours (which equals the 45-day maximum for a 37.5 hour workweek). However, the payment should have been for 387 hours because the employee had a 43-hour workweek schedule. Section 19-703.07 M. of the <u>State Human Resources Regulations</u> states, "Upon retirement from state employment ... a lump sum payment will be made for unused annual leave, not to exceed forty-five (45) days …" based on the employee's workweek schedule. Regulation 19-703.07 D. shows that the leave hours earned per month are based on the employee's hours per workweek schedule.

Similar errors in applying State personnel law and regulations in calculating payroll amounts for overtime and at termination have been reported in prior State Auditor's Reports on the Division's financial performance.

Clothing Allowance

The Division gives a $600 clothing allowance at the beginning of each fiscal year to each of its agents. The Division's policy 2.10 C. states that when agents terminate employment or start after the first of the fiscal year, the clothing allowance must be prorated quarterly. During our test of termination pay transactions, we noted that four employees had received clothing allowances for fiscal year 1999 but did not reimburse the Division a prorated share upon termination. In total $1,350 should have been reimbursed by these employees to the Division.

An effective accounting system includes documentation and control procedures (e.g., independent checks on performance and recording of transactions; supervisory review and approval of transactions; design of procedures to implement policy) to ensure proper authorization, processing and recording of transactions; accurate computation of disbursement amounts; and the accuracy and completeness of the supporting documentation and accounting records. Furthermore, Section 8-11-30 of the South Carolina Code of Laws states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to … pay salaries or monies that are not due."

We recommend that the Division implement procedures to identify all State laws and regulations and agency policy affecting employee leave and pay and the agent clothing allowance and to ensure necessary compliance controls are in place and personnel and payroll employees are knowledgeable thereof. Procedures should also be developed and implemented by the accounting department to ensure that final pay calculation methods are formalized and consistently used; payroll calculations are independently checked for clerical accuracy; and information in those computations (e.g., pay rates, hours worked, overtime hours, leave balances) is independently verified with supporting documentation. In addition, we recommend SLED develop procedures to ensure that clothing allowances are properly computed at the time of hire and termination of employment and that a receivable is recorded and collected by the accounting department.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

DISCRETIONARY FUND

The following is a portion of the comment which was included in the State Auditor's Report on the Division for fiscal year 1996 and repeated in the 1997 and 1998 reports. As of the date of this report, the absence of controls over agent balances at termination described below still existed.

> The Division maintains a discretionary (confidential) fund account that is used to provide agents with investigative expense monies. With proper approval, an agent may obtain funds for use on a specific case or an ongoing investigation. Agents who receive monies from the account must submit a written expense report for expended funds and return unexpended funds to the fund custodian as soon as practicable. An agent may maintain a contingency balance (with a $450 maximum) at all times for undercover buys should the situation warrant.
>
> The Division maintains an accounts receivable ledger of balances for all agents with unexpended funds. When an agent terminates employment with the Division, there is no procedure to ensure the agent's accounts receivable balance is cleared by returning unexpended funds and submitting an expense report for expended funds.

Effective internal control includes procedures that provide adequate safeguards over access to and use of assets as well as independent checks on performance. The Division's procedures do not ensure that outstanding balances are cleared when an agent leaves the Division.

We again recommend the Division implement the following controls:

1. Establish procedures to ensure that all terminating agents clear their accounts receivable balances as part of the exit interview process by filing the required expense reports and remitting the excess.
2. Document any policy additions and/or changes in the established procedures for the confidential fund.

We were told that the Division began implementing these procedures during fiscal year 2000.

CLASSIFICATION OF ACCOUNTING TRANSACTIONS

We found that the Division misclassified certain revenue, expenditure, and payroll transactions as follows:

1. Reimbursements for the costs of printing sex offender registries totaling $1,005 were recorded as miscellaneous revenues, not reductions of expenditures. (We reported a similar finding in our prior report.)
2. $1,710 in fees collected by SLED for concealed weapon permits (revenue object code 1708) were initially misclassified and recorded as detective/security fees (object code 1703). Because State law for fiscal year 1999 under Appropriation Act Proviso 34.3 provided for detective/security fees to be collected and expended by DPS, the Division transferred (by recording a reduction of revenue) the entire balance in object code 1703 (including the misclassified $1,710) to DPS to fund additional Capital Complex security. Later the Division reclassified $1,710 from object code 1703 to the proper account. Consequently, revenue object code 1703 reported a negative balance of $1,710 at year-end. The Division should have identified and investigated the negative revenue balance during its monthly reconciliation process. Apparently, the employee who prepared the reconciliation did not note the unusual account balance. Furthermore, the reconciliations were not reviewed and approved by someone other than the preparer. Failure to scan account balances during the prepartion and independent review of reconciliations limits the effectiveness of that process for error detection and correction. [Note: See the Revenue Retention and Carry-Forward Authority comment in Section A of the Accountant's Comments. If the

law is changed to provide that SLED, not DPS, should collect certain detective and security fees to be used for Capital Complex security, the fees should be recorded as revenue to SLED and amounts forwarded to DPS for Capital Complex security should be recorded as SLED expenditures.]

3. Certain federal grant monies received directly from the federal grantor were recorded to object code 2805 (federal funds received from other State agencies on a subgrant basis) while others passed through State agencies were recorded to revenue object code 2801 (federal funds received directly from federal grantors). The grants department failed to inform accounting personnel of the proper revenue account.

4. Upon termination of employment, one permanent employee was paid for compensatory holiday time earned which was recorded in error to expenditure object code 0173 (overtime). The Division's normal practice, consistent with State practice, is to charge holiday compensatory time, upon an employee's termination, to object code 0158 (classified positions).

5. One employee's overtime pay was recorded incorrectly to object code 0171 (temporary employees) rather than 0173 (overtime).

6. Charges of $154 were classified to object code 2417 (aviation fuel). Based on our review of the invoice, the Division should have charged $123 under aviation fuel, $18 to object code 2409 (motor oil), and $13 to object code 0308 (motor vehicle supplies).

These errors occurred because personnel assigning object codes did not carefully review supporting documents (e.g., invoices) or were not familiar with object code definitions or supervisory employees did not provide the appropriate level of oversight and review of transactions before approval and of reconciliations after preparation.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) gives detailed descriptions of the proper revenue and expenditure object code classification to be used for all types of transactions. Section 2.1.7.20 requires that reconciliations be reviewed and approved in writing by an appropriate agency official other than the preparer.

We continue to recommend the Division establish appropriate policies and practices to ensure that personnel responsible for assigning account numbers to transactions perform a careful review of supporting documentation and are knowledgeable about the proper accounting treatment and transaction coding for all types of transactions. We also recommend that the Division establish the appropriate level of management oversight including independent reviews of documents and transactions prior to approval and recording in the accounting records and review and approval of all monthly reconciliations by a responsible supervisor other than the preparer. In addition, we recommend that reconciliation procedures performed by both the preparer and the reviewer include scanning the accounts for negative or other unusual balances, investigating them, and preparing any necessary adjustments. The Division should seek guidance from Central State Finance Division in the State Comptroller General's Office and/or from the Office of the State Auditor in determining how to properly record its various revenue and expenditure transactions by transaction category and fund/object code.

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 on the Division for the fiscal year ended June 30, 1998, and dated April 13, 1999. We determined that the Division has taken adequate corrective action on only one finding, the Personnel/Payroll Records and Procedures deficiency. However, we determined that the Division has not taken adequate corrective action regarding the Expenditures, Closing Packages, Revenue Retention and Carry-Forward Authority, Payroll Calculations, and Discretionary Fund deficiencies. We have repeated those findings in Sections A and B of the Accountant's Comments section of this report. Also, we determined that the Department took adequate corrective action on the specific transactions cited in the Transaction Accounting Treatment Deficiency but we found problems similar in nature for fiscal year 1999. We have reported these findings in the Classification of Accounting Transactions deficiency in Section B of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

AGENCY RESPONSE TO AUDIT FINDINGS

Fiscal Year Ended 1998-1999

Section A - Material Weaknesses and/or Violations of State Laws, Rules, or Regulations

Expenditures

We recommend the accounting department develop and implement procedures to help ensure that the Division timely and properly completes receiving reports; timely processes invoices for payment; and pays for goods/services in the fiscal year in which they are received.

Expenditures Response

Procedures are currently in place to ensure that documents are forwarded to proper area for processing to avoid untimely payment of obligations. Notices are sent to departments instructing them to forward invoices to finance and check points have been established to ensure invoices are sent for goods and services received by June 30.

Closing Packages

1. ***Operating Leases:*** *Recommend staff is properly trained in lease accounting and thoroughly familiar with GAAP Manual and State Treasurer guidance and instructions.*
2. **Miscellaneous Revenues:** Recommend the Division develop and implement policies regarding granting credit; the collection of receivables and write-offs of uncollectible accounts; and the valuation of its estimated allowance for uncollectible balances.
3. **Fixed Assets:** Recommend the Division establish procedures to ensure that fixed asset transactions and balances are properly reported on the closing packages.
4. **Accounts Payable:** Recommend the Division establish procedures to ensure that all accounts payable at June 30 are properly identified and reported on the accounts payable closing package.
5.

Closing Packages Response

The Division concurs with auditor's recommendation and has implemented procedures to correct audit findings.

1. *The lease file is centrally maintained.*
2. *Procedures have been established to estimate uncollectible receivables. Agency collection history will be reviewed continuously and reported in accordance to established policy.*
3. *Fixed assets activity will be reported in accordance with GAAP procedures.*
4. *Procedures have been established to ensure that accounts payables at June 30 are properly identified and reported in appropriate year.*

Revenue Retention and Carry-Forward Authority

1. Recommend the Division seek guidance in determining the appropriate disposition of and allocation methods and accounting treatments for fee collections and transfers.
2. The Division should formally document the applicable legal authority to collect each fee type; its method of allocating each among the various funds and/or other agencies; and the restricted purposes, if any, for which the retained monies must be expended
3. Recommend the Division perform the required jurisdictional audit annually.
4. Recommend the Division document its communication with appropriate Division personnel of additions, changes, and deletions to laws and regulations affecting the agency.

Revenue Retention and Carry-Forward Authority Response

The revenue and carry-forward authority is legislatively mandated. The Division commits to following appropriate procedures to ensure compliance with State laws and guidelines. The Division has taken steps through the legislative process to clarify proviso regarding revenue retention, which becomes effective in fiscal year 2001.

Payroll Calculations

We recommend the Division adheres to All State laws and regulations including those covering employee pay.

1. Implement procedures to identify All State laws and regulations and agency policy affecting employee leave and pay and the agent clothing allowance.
2. Ensure that employees are knowledgeable about State Human Resources Regulations pertaining to pay procedures.
3. Procedures should be developed and implemented to ensure that final pay calculation methods are formalized and consistently used.
4. Payroll calculations should be independently checked for clerical accuracy and information in those computations should be independently verified with supporting documentation.
5. Recommend SLED develop procedures to ensure that clothing allowances are properly computed at the time of hire and termination of employment and that a receivable is recorded and collected by the accounting department.

Payroll Calculations Response

Suggested recommendations are in practice. The Division made internal restructuring and reassignment of payroll duties and has hired trained staff in areas to address these problems and to avoid subsequent audit findings. In addition, a new payroll accounting package has been fully phased in to address these findings.

Section B - Other Weaknesses Not Considered Material

Discretionary Fund

We recommend the Division implement the following procedures:

1. Establish procedures to ensure that all terminating agents clear their accounts receivable balances as part of the exit interview process.
2. Document any policy additions and/or changes in the established procedures for the confidential fund.

Discretionary Fund Response

Division began implementing procedures during fiscal year 2000.

Classification of Accounting Transactions

1. Recommend Division establish appropriate policies and practices to ensure that personnel responsible for assigning account numbers to transactions perform a careful review of supporting documentation.
2. Recommend Division establishing appropriate level of management oversight in the review and approval of all monthly reconcililiations.
3. Recommend that reconciliation procedures performed by both the preparer and the reviewer include scanning the accounts for negative or other unusual balances, investigating them and preparing any necessary adjustments.

Classification of Accounting Transactions Response

The Division is committed to providing continuous training to employees to help ensure that staff is knowledgeable regarding proper treatment and transaction coding of all types of transactions. Corrective procedures are being established to ensure that accounting transactions are treated properly.

Section C - Status of Prior Findings Response

The Division will continue to make efforts to correct prior year audit findings.