

**SOUTH CAROLINA
LAW ENFORCEMENT DIVISION
COLUMBIA, SOUTH CAROLINA**

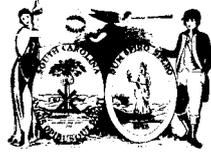
STATE AUDITOR'S REPORT

JUNE 30, 2002

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 12, 2003

The Honorable Mark Sanford, 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 Chief Stewart and the management of the South Carolina Law Enforcement Division, (the Division), solely to assist you in evaluating the performance of the Division for the fiscal year ended June 30, 2002, in the areas addressed. The Division'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, 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. We found no exceptions as a result of these 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 Division, 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. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and operating transfers 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 individual transactions 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 randomly. We found no exceptions as a result of the procedures.

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6. We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2002, 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 determined if they were timely performed and properly documented in accordance with State regulations, 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. We found no exceptions as a result of the procedures.
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 2002. Our finding as a result of these procedures is presented in Miscellaneous Revenues in the Accountant's Comments section of this report.
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, 2001, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Miscellaneous Revenues 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, 2002, 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 finding as a result of these procedures is presented in Miscellaneous Revenues 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, 2002, 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 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.

The Honorable Mark Sanford, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
June 12, 2003

This report is intended solely for the information and use of the Governor and of the Chief and management of the 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 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.

MISCELLANEOUS REVENUES

Sections 23-3-620 and 23-3-670 of the 1976 South Carolina Code of Laws, as amended, require offenders meeting certain criteria to provide DNA samples to the State Law Enforcement Division (SLED) for inclusion in the State's DNA Database and to pay a \$250 processing fee. The law authorizes SLED to use the fees to offset operating costs for the DNA database program. Furthermore, for DNA sample fees collected from offenders meeting the criteria, Proviso 72.60 of the fiscal year 2001-2002 Appropriation Act requires the South Carolina Department of Corrections (SCDC), Department of Probation, Parole, and Pardon Services (DPPPS), and Department of Juvenile Justice (DJJ) to collect and remit those fees to SLED.

Beginning in fiscal year 1999 SCDC identified inmates meeting the criteria and provided DNA samples to SLED for each qualifying inmate. SCDC also began collecting from inmate accounts amounts to pay the processing fee. In fiscal year 2002, DPPPS and DJJ began collecting DNA samples and the related fees from qualified offenders and remitting those to SLED. SLED has not recorded accounts receivables and deferred revenues associated with the DNA samples submitted by these agencies. In addition, SLED did not report receivables related to the DNA fees on its fiscal year 2002 miscellaneous receivables closing package. As a result the related revenues, deferred revenues, accounts receivables, and allowance for uncollectibles were understated on the State's financial statements. (We were not able to determine the understatements.) A similar finding was reported in the fiscal year 2000–2001 engagement dated April 12, 2002.

Section 3.4 of the GAAP Closing Procedures Manual defines miscellaneous accounts receivable and miscellaneous revenues as transactions with parties outside of State government and, in addition, provides guidance and instructions for preparing closing packages for those related accounts.

We again recommend that the Division coordinate with the other agencies responsible for collecting DNA fees to obtain a list of qualifying offenders who owe the fine and the balances still owed in order to properly record accounts receivable and revenues in accordance with GAAP Manual instructions.

SECTION B - 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, 2001, and dated April 12, 2002. We determined that the Division has taken adequate corrective action on each of the findings except for certain deficiencies in reporting miscellaneous revenues and receivables which have been repeated in the Miscellaneous Revenues comment in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

AGENCY RESPONSE TO AUDIT FINDINGS
Fiscal Year End - 2002

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

Closing Packages

1. **Miscellaneous Revenues** - Recommend that the Division coordinate with the other agencies responsible for collecting DNA fees to obtain a list of qualifying offenders who owe the fine and the balances still owed in order to properly record accounts receivable and revenues in accordance with GAAP Manual instructions.

Closing Packages Response

1. *Miscellaneous Revenues - The Division will consult with the State Auditor's office as it coordinates with the agencies responsible for collecting DNA fees, in obtaining a list of qualifying offenders to properly record accounts receivable and revenues in accordance with GAAP Manual instructions.*

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