

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

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 17, 1998

The Honorable David M. Beasley, 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 management of South Carolina Law Enforcement Division, solely to assist you in evaluating the performance of the Division for the fiscal year ended June 30, 1997, 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; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 6.4 percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
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 accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 17.8 percent of the aggregate amount of all recorded non-payroll disbursements. Our findings as a result of these procedures are presented in Expenditures and Discretionary Fund in the Accountant's Comments section of this report.

The Honorable David M. Beasley, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
August 17, 1998

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded payroll disbursements. Our findings as a result of these procedures are presented in Payroll Calculations and Personnel/Payroll Records and Procedures in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all recorded operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The journal entries selected for testing were chosen randomly. The total of the selected journal entries was 3.3 percent of the aggregate amounts of all such recorded transactions. 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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items 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 Division for the year ended June 30, 1997, and tested selected reconciliations of balances in the Division's accounting records to those in the State's accounting system (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 that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Division's accounting records or STARS. The reconciliations selected for testing were chosen randomly. 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures.

The Honorable David M. Beasley, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
August 17, 1998

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, 1996, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payroll Calculations, Personnel/Payroll Records and Procedures, Closing Packages, Transaction Accounting Treatment, Accounting for Subfund 3468, and Discretionary Fund in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Division and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Division. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Division and submitted to the State Comptroller General and 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 Closing Packages in the Accountant's Comments section of this report.
11. We obtained a copy of the schedule of expenditures of federal awards for the year ended June 30, 1997, prepared by the Division and submitted to the State Auditor and 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. Our finding as a result of these procedures is presented in Accounting for Subfund 3468 in the Accountant's Comments section of this report.

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 and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through eleven of this report. Accordingly, we do not express such an opinion. 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 use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

SOUTH CAROLINA LAW ENFORCEMENT DIVISION
Schedule of Expenditures -
Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$16,968,747	\$16,835,697	\$133,050
Employer Contributions	4,894,487	4,646,604	247,883
Other Operating Expenses	6,571,674	6,231,791	339,883
Public Assistance	3,427	3,427	-
Permanent Improvements	-	-	-
<i>Special Items:</i>			
Agents Operations	75,978	75,978	-
Implied Consent	85,619	85,619	-
Supervised Health	<u>53,365</u>	<u>53,102</u>	<u>263</u>
Total Expenditures	<u>\$28,653,297</u>	<u>\$27,932,218</u>	<u>\$721,079</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA LAW ENFORCEMENT DIVISION
Schedule of Expenditures -
Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 876,257	\$ 827,085	\$ 49,172
Employer Contributions	267,732	257,989	9,743
Other Operating Expenses	7,333,449	4,114,579	3,218,870
Public Assistance	-	-	-
Permanent Improvements	492,955	492,955	-
<i>Special Items:</i>			
Agents Operations	86,022	72,595	13,427
Implied Consent	69,144	62,344	6,800
Supervised Health	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$9,125,559</u>	<u>\$5,827,547</u>	<u>\$3,298,012</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$17,845,004	\$17,662,782	\$ 182,222
Employer Contributions	5,162,219	4,904,593	257,626
Other Operating Expenses	13,905,123	10,346,370	3,558,753
Public Assistance	3,427	3,427	-
Permanent Improvements	492,955	492,955	-
<i>Special Items:</i>			
Agents Operations	162,000	148,573	13,427
Implied Consent	154,763	147,963	6,800
Supervised Health	<u>53,365</u>	<u>53,102</u>	<u>263</u>
Total Expenditures	<u>\$37,778,856</u>	<u>\$33,759,765</u>	<u>\$4,019,091</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The South Carolina Law Enforcement Division is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Division. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present(s) actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Division's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$25,977,826
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	460,077
Employer Contributions (Proviso 72.17.)	8,290
Supplemental Appropriation for Vehicles and DNA Equipment	1,866,000
Appropriation Transfer from the Department of Public Safety for Personal Services, Fringe Benefits, and Other Operating Costs:	
Vehicle Theft Program	346,807
Regions Program	8,858
Appropriation Transfer to the Attorney General's Office for Personal Services and Fringe Benefits (Net):	
State Grand Jury Program	<u>(14,594)</u>
Revised Appropriation - Legal Basis	28,653,264
Plus: <u>1996</u> Appropriation Brought Forward (1997 Proviso 72.44.)	<u>33</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$28,653,297</u>

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the Division carried forward \$724,974 of unspent State General Fund appropriations from the current year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

Notes to Schedules

June 30, 1997

NOTE 3 - EXPENDITURES PAID FROM FUNDS FOR ANOTHER FISCAL YEAR

The Division recorded \$126,650 of other operating expense expenditures (Budgetary General Fund - \$3,895; Other Budgeted Funds - \$122,755) pertaining to fiscal year 1997 in fiscal year 1998. Adjusting entries were made to properly include these expenditures on Schedules 1, 2, and 3.

State law requires agencies to expend budgeted funds in strict accordance with the line-items in the Appropriation Act in the year for which appropriated unless otherwise authorized.

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 an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

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

PAYROLL CALCULATIONS

Overtime Pay

Six of fourteen payroll transactions tested that included overtime pay, contained errors. Some errors occurred because incorrect annual salary amounts or incorrect overtime rates were used. Some errors occurred because the employees' overtime hours included annual and/or sick leave. Division policy 3.11.1. states that annual and sick leave should not be included when calculating overtime hours. The errors were not material, but indicate that accounting controls for overtime pay calculations are not adequate to ensure that errors are detected and corrected in a timely manner.

We found that wage rates used to calculate overtime earnings were not verified by accounting personnel to ensure accuracy. In addition, we were told some errors may have occurred because the employee's supervisor was not verifying the accuracy of the employee time sheets and other errors may have occurred because employees entered their time directly to the payroll timekeeping system without a supervisors review.

Termination Pay

Five of the twenty-five termination pay transactions contained errors that resulted in both overpayments and underpayments to employees. The errors resulted from using incorrect annual leave hours, annual salary rates, and days worked in the final pay period. We also noted that one employee remained on the payroll three pay periods after he terminated. This error went undetected and resulted in the employee receiving three paychecks that were not earned. Finally, our review of payroll documents and inquiries of accounting personnel indicated that two employees never received payment for hours worked during their final pay period and accrued annual leave.

The errors appear to be the result of inadequate internal control procedures. Based on our review of supporting payroll files we noted that the procedures for documenting final pay calculation were not formalized and the methods used to document pay calculation were inconsistent. It also appears that procedures for ensuring the accuracy of pay calculations and support documentation is not adequate or not operating effectively.

Regular Pay

In the test of additions we found errors in two of twenty-five transactions tested and in the test of hourly paid employees we found one error out of twenty-five transactions tested. The errors resulted in both over and under payments to the employees. In the test of additions we found that the wrong pay rate was used to calculate one employee's pay and the other employee received pay for the entire bimonthly pay period even though he worked only 9 of 10 days in the period. In the test of hourly employees we found that the employee did not receive pay for all hours worked. The employee was paid for 75 hours worked even though his time sheet documented that he worked 85 hours.

Weaknesses similar to those noted in the test of terminations and additions have been noted in prior State Auditor's reports.

An effective accounting system includes documentation and control procedures (e.g., independent checks on performance and on the proper recording of transactions; supervisory review and approval of transactions) to ensure proper authorization, processing, and recording of transactions and the accuracy of the accounting records. Section 8-11-30 of the 1976 Code of Laws states that, "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 the Division adhere to all State laws and regulations including those covering employee pay. The accounting department should ensure that employees are familiar with Division policies pertaining to overtime pay and procedures for processing other nonroutine pay including partial periods and termination pay. Procedures should also be developed and implemented by the accounting department to ensure that time sheets are approved by the employee's supervisor, payroll calculations are independently checked for clerical accuracy and information in those computations is independently verified with supporting documentation.

PERSONNEL/PAYROLL RECORDS AND PROCEDURES

Temporary Employee Listing

The current personnel system can generate listings of permanent employees who were hired or terminated during the year. However the system cannot generate similar listings for temporary employees. The listings are used to select employees for the test of new and terminated employees. To obtain a list of temporary employees, the personnel department must manually compile information using temporary employment reports from the State's Office of Human Resources (OHR). A computerized list would help ensure a complete and accurate population.

Termination Listing

The Division uses a personnel status sheet to document payroll history information such as hire date, termination date, salary, hourly pay rate, promotions, reclassifications, approvals, etc. During our test of terminated employees we noted that the termination dates documented on the termination listing did not agree with the termination dates documented on the personnel status sheet for two of twenty-five employees tested. In addition, for two other employees, the termination dates on the listing could not be verified because the employees' termination dates were not documented on the personnel status sheet or any other document in the employees' personnel file.

Personnel Status Sheets

Personnel and payroll actions are documented on the personnel status sheet. Division policy requires personnel and payroll actions be approved by the employee's supervisor and by human resource department, budget department, accounting department, and the director of administration. During the test of additions we noted the personnel status sheets for three employees did not include the accounting manager's approval.

Personnel Files

During our test of hourly paid employees we noted that one employee's personnel file did not include the employee's entire work history. The employee's personnel file did not include information about his employment with the agency prior to fiscal year 1998. It appears that information pertaining to his prior employment history was purged from his personnel file when he was rehired in fiscal year 1998 as a temporary employee. Section 19.708.03 of the State Human Resources Regulations requires each agency to maintain an official individual personnel file for each employee and that the personnel file shall include copies of all personnel actions reflecting a history of the employee's service.

Time Sheets

For 3 of 25 hourly employees tested we found that the employees' supervisors or other authorized persons had not approved their timesheets.

Leave Records

We found that terminated employees are not removed from the leave liability report in a timely manner. We found that employees remained on the report up to four months after they were terminated. We were told that the employees were kept on the system to ensure that all personnel and payroll actions were processed and complete.

We also found that employee leave records did not agree with the leave hours paid or transferred. We noted that the leave records for one employee reported her leave balance as 33 hours, but balance transferred to another State agency was 40 hours. The leave records for another employee documented the employee had a leave balance of 130.52 hours. However, when the employee terminated he was paid for 120.97 hours.

Similar findings were described in the State Auditor's report on the Division for fiscal year 1996.

An effective accounting system includes documentation and control procedures (e.g., independent checks on performance and on the proper recording of transactions; supervisory review and approval of transactions) to ensure proper authorization, processing, and recording of transactions and the accuracy of the accounting records.

We recommend the Division adhere to all State laws and regulations including those covering personnel records. The accounting and personnel departments should develop and implement procedures to ensure the proper authorization, processing, and recording of personnel and payroll actions. The procedures should include independent checks to ensure the forms are properly completed, the information on the forms are accurate and supported by source documentation (e.g. leave records, personnel status sheets, etc.), and that the

personnel and payroll actions have been signed by the preparer and approved by authorized personnel. The personnel department should request the personnel system program be modified to capture information pertaining to temporary employees so listings similar to those generated for permanent employees can be obtained. We also recommend that the personnel and payroll departments develop and implement procedures to ensure that personnel and payroll actions are processed in a timely manner so employees can be removed from the personnel and payroll departments' systems in a timely manner.

EXPENDITURES

We found that the Division paid obligations incurred in fiscal year 1997 totaling \$128,150 (general budgetary fund - \$3,895, other budgeted funds - \$122,755, and unbudgeted funds - \$1,500) in fiscal year 1998. We tested 19 transactions in our year-end cutoff test and four additional transactions in our review of the accounts payable closing package and found seven transactions were not paid in the proper year. Our review indicated that the invoices relating to the goods or services were received in sufficient time to be paid before fiscal year 1997 was closed out. In addition, the cutoff test disclosed that one additional invoice was not paid timely. The services related to the invoice were received during the month of April, the bill was received in late May, and the disbursement voucher was processed in mid-July. We were told that vendors mail some invoices directly to departments of the Division. As a result the accounting department experiences delays in paying the invoices.

Section 2.1. of the 1996-97 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 1996-97, and for other purposes specifically designated." Section 11-35-45 of the South Carolina Code of Laws requires that all vouchers for payment of goods or services be delivered to the Comptroller General's Office within 30 work days from acceptance of the goods or services and a proper invoice.

We recommend the accounting department develop and implement procedures to ensure that the Division is in compliance with State laws, rules, and regulations (i.e., notifying vendors to send invoices directly to the accounting department, ensuring that departments forward invoices directly to the accounting department upon receipt, etc.).

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 specifies that agencies should 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 classified four leases that met the criteria for capitalization as operating leases. Three of the four leases were identified as exceptions in the State Auditor's report on the Division for fiscal year 1996 dated June 2, 1997. In addition, lease registers submitted on three operating leases reported incorrect beginning and ending lease payment dates, incorrect total net lease payments, incorrect net lease payments per period, incorrect present value amounts, and incorrect fair market value amounts. (Similar findings have been reported in State Auditor's report for 1996, 1995, and 1994).

In our opinion decentralization of the responsibilities for operating lease negotiations, documentation and recordkeeping is a contributing factor in the problems encountered by the accounting department.

We again recommend the accounting department maintain timely updated lease files. The files should include the lease classification information and analysis, lease register, minimum lease payments, documentation of initial lease liability computations, date of inception, lease period, and fiscal year lease amounts for each lease. Lease registers should be completed and reviewed by staff properly trained in lease accounting to ensure that leases are properly classified and reported. The reviewer should ensure that the four criteria for determining the proper classification of leases have been properly applied. Accounting, data processing, and forensic-sciences personnel should participate in the preparation and review of the closing package to ensure lease payments and obligations are reported properly and completely. The accounting department should compare the current year and prior year's closing packages for the leases and amounts reported, identify any variances or omitted leases, determine the reasons for the differences, and make additions and/or corrections to the current closing package as necessary.

Refund Receivables

The accounting department excluded refunds deposited in July 1997 (FM01) from the refund receivables closing package. Section 3.5 of the GAAP Manual specifies that refunds deposited in July (FM13) are not to be reported in the closing package. We were told the preparer misunderstood the closing package instructions and excluded both FM13 and FM01 receipts. In addition, we found that the accounting department did not report an allowance for uncollectible receivables. The GAAP Manual instructions specify that the State's policy is to record in its GAAP-basis books both the gross receivable amounts and the related allowance for uncollectible receivable. (A similar finding was reported in the State Auditor's 1996 report).

We recommend that accounting department comply with GAAP Manual instructions. The accounting department should ensure that personnel responsible for completing and reviewing the closing package are familiar with closing package manual instructions and know who to contact at the Comptroller's Office whenever they have questions or concerns about the instructions.

Miscellaneous Accounts Receivable

We found that the accounting department did not report an allowance for uncollectible receivables. Section 3.4 of the GAAP Manual instructs agencies to estimate and report an allowance for uncollectible accounts receivables.

We recommend that accounting department comply with GAAP Manual instructions. The accounting department should ensure that personnel responsible for completing and reviewing the closing package are familiar with closing package manual instructions and know who to contact at the Comptroller's Office whenever they have questions or concerns about the instructions.

Compensated Absences

We found that the accounting department incorrectly reported holiday and overtime compensatory leave in its compensated absences closing package. The leave liability report used to compute totals for the compensated absences closing package commingles holiday and other compensatory leave. The accounting department must manually evaluate each employee's leave balance at June 30 to determine the amount of holiday and overtime

compensatory leave. The accounting department made an error while performing the manual calculation resulting in an overstatement of \$182 for overtime compensatory leave and an understatement of \$182 for holiday compensatory leave. (A similar finding was reported in the State Auditor's 1996 report).

Section 3.17 of the GAAP Manual requires agencies to compute and separately report liabilities for annual leave, holiday compensatory leave and overtime compensatory leave.

We recommend the accounting department request a change to the leave liability report program so it separately reports holiday and overtime compensatory leave. Until that change is made we recommend that computations and supporting documentation used to calculate holiday and overtime compensatory be reviewed independently to ensure clerical accuracy.

TRANSACTION ACCOUNTING TREATMENT

The following comment was included in the State Auditor's report on the Division for fiscal year 1996.

Our prior report noted several instances in which the Division used the wrong accounting treatment for transfer transactions and/or did not have adequate supporting documentation for reimbursements of expenditures, fully recover its reimbursable costs, or adequately document whether transactions were revenues or reimbursements of expenditures. The accounting department did not understand the accounting impact for each of these transaction classifications and accounting treatments. Its main goal was to record cash or transfer cash. We noted the following accounting transactions in fiscal year 1996. (We reported similar findings for each of the four transaction types in our 1995 report.)

1. The Division provides blood screening for other State agencies through its Supervised Health Fitness Screening Program (SHFSP). The Division records expenditures for lab fees as contractual services and for temporary personnel services costs related to the blood screening as personal services. It recorded all payments received from agencies as expenditure reimbursements (reductions of expenditures) to the contractual services object code. Also, the Division did not recover costs for employer contributions related to the personal services expenditures. The Division did not maintain supporting documentation to indicate which receipts were for personal services and which were for contractual services.
2. The Division pays the Federal Bureau of Investigation (FBI) to perform fingerprint analyses. The Division received over \$258,000 from State agencies for fingerprint analyses, all of which it recorded as reimbursements of expenditures. The FBI allows only one agency per state to coordinate this program. The FBI sets the charge for each analysis which includes a nominal administrative fee which the Division retains. The type of services provided by the Division vary depending on the reasons for the analysis.

3. When the Division requests reimbursements for federal grant expenditures, it rounds up to the nearest dollar, creating a nominal cash balance at the end of the grant period. The Division transferred the cash balances for closed federal grants by debiting federal fund revenues and crediting general fund revenues. As a result, revenues or beginning fund balances were misstated in both funds.
4. The Division, in an effort to “transfer cash” for a grant match, actually adjusted revenues by debiting (decreasing) subfund 3468 revenue for \$14,992 from confiscated cash received under court order and crediting (increasing) subfund 3035 operating revenue for \$14,992. Then the Division processed vouchers charging grant match expenditures in subfund 3035. Consequently, revenues in the confiscated cash subfund 3468 were understated and both revenues and expenditures in subfund 3035 were overstated.

We were told by accounting department personnel that as of the date of this report the above conditions still exist. In addition, we noted the accounting department does not properly record certain types of accounts receivables. We found that those accounts receivables related to reimbursements of expenditures, which are billed in one fiscal year and collected in the subsequent fiscal year, are recorded as reimbursements of current year expenditures instead of reimbursements of prior year expenditures.

We again recommend that the Division establish policies and practices and provide training to employees, as necessary, to help ensure that its accountants are knowledgeable regarding the proper accounting treatment and transaction coding for all types of transactions including lab and other service fees earned, expenditure reimbursements, cash transfers, grant match, closeout of final grant balances, and transaction adjustments. The accounting treatment for new or unusual transactions should be closely scrutinized, especially when the proposed entries are between different subfunds and object codes. The Division should seek guidance from Central State Finance in the State Comptroller General’s Office, and/or the Office of the State Auditor in determining how to properly record its various revenue and expenditure transactions by transaction category and fund/object coding. We also recommend that the Division, for reimbursement type grants, request reimbursement based on actual

expenditures without rounding up to the nearest dollar. When a positive/negative cash balance exists at the end of the grant period, the Division's grant close-out procedures should include timely transfer of any excess cash balance or liquidation of the deficit cash balance. Overexpended grants should be corrected by correcting current year expenditures or beginning fund balances, whichever is applicable.

In addition, we again recommend the Division discontinue its practice of “transferring cash” by means of revenue account adjustments in different subfunds and/or separate cost centers in the same subfund. True transfers of cash should be recorded as transfers in or out in the proper subfunds with the appropriate transaction codes. Transactions to correct prior period errors should be recorded as beginning fund balance adjustments using established transaction codes at the State level.

Also, we again recommend that matching expenditures be recorded in the proper subfund and cost center accounts. To present a more accurate accounting, the Division should establish source and use cost center(s) within the same subfund as necessary for various Division activities.

Finally we recommend the Division properly account for accounts receivables relating to the reimbursement of expenditures which are received in the subsequent fiscal year by recording the transactions as reimbursements of prior year expenditures.

ACCOUNTING FOR SUBFUND 3468

The following comment was included in the State Auditor's report on the Division for fiscal year 1996.

The Division uses its Confiscated Cash-Court Order subfund 3468 to record federal forfeitures and also to record state forfeitures, helicopter expenditures, required federal grant match, and other activities. For fiscal year 1996, subfund 3468 transactions and balances were reported incorrectly in both the State's GAAP financial statements and its schedule of federal financial assistance (SFFA) included in the Statewide Single Audit report. [The State Auditor requires each agency to prepare a SFFA and combines them to prepare the State's SFFA.]

The Comprehensive Crime Control Act of 1984 authorized the sharing of federal forfeiture proceeds with cooperating state and local law enforcement agencies. The primary purpose of the forfeiture program is law enforcement. To assist local agencies in their administration of the program and to enhance the integrity of the sharing program, the United States Department of Justice issued A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies (The Guide) in March 1994. The State of South Carolina has similar laws establishing a state forfeiture program for cases handled through the State court system. The Division participates in both the federal and the state forfeiture programs.

When the Division directly participates in an investigation or prosecution that results in a federal forfeiture, it may request an equitable share of the net proceeds of the forfeiture to be used for allowable law enforcement purposes described in Section X of The Guide. Participating law enforcement agencies are required to implement standard accounting procedures and internal controls to adequately track equitably shared monies and tangible property. As part of the Statewide Single Audit, the Division's SFFA includes amounts associated with the federal forfeiture program.

The Division uses cost centers to separately account for the various activities recorded in subfund 3468. Subfund 3468 cost centers associated with the federal forfeiture program are intended to account for the federal forfeiture program and, therefore, to provide the amounts presented on the Division's SFFA for this program.

We were told by agency personnel that, as of the date of this report, the above conditions still existed. In addition, during fiscal year 1997 we found that the Division transferred funds between cost centers and, on occasion, subfunds by debiting revenues in the disbursing cost center and crediting revenues in the receiving cost center. We found that \$165,000 was transferred to cover a helicopter expenditure in two cost centers. The helicopter transaction was recorded as revenue in the agency's general ledger and as an expenditure on the agency's schedule of expenditure of federal awards (SEFA). The grants accountant told us that she treated the transfers to other cost centers as expenditures on the SEFA which was not proper accounting treatment.

We again recommend the Division implement the following accounting procedures and internal controls to properly track and account for the various activities currently recorded in subfund 3468:

1. In the agency's accounting records, account for cash transfers between subfunds or between cost centers within the same subfund as operating transfers out (not reductions of revenue) in the disbursing cost center and operating transfers in (not additions of revenue) in the receiving cost center.
2. In STARS, contact the State Comptroller General's Office to determine proper transaction codes to use for operating transfers. Establish and use these separate codes for cash transfers between subfunds or between cost centers within the same subfund.
3. Establish a federal (5000 series) subfund for the federal forfeiture program. Continue to account for the state forfeiture program in the earmarked (3468) subfund.
4. Record all federal program/grant activity in the federal subfunds.
5. When federal forfeiture program funds are used for allowed specific purposes which the Division wants to separately track (such as helicopter expenditures and grant match), establish additional cost centers in such a manner that the source and use of the funds are tracked. For example, create two helicopter cost centers with one being funded from operating revenue and the other from the federal forfeiture program revenue.
6. Do not commingle programs in the same subfund or cost center which represent distinct activities and should be accounted for and reported separately.

SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

DISCRETIONARY FUND

The following comment was included in the State Auditor's report on the Division for fiscal year 1996.

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.

The confidential fund custodian monitors the agents' accounts receivable balances. The monitoring procedures require the custodian to send monthly confirmation requests to agents to verify outstanding balances and document future anticipated uses of the balances. When an agent fails to return the monthly confirmation, the custodian notifies the supervising captain to determine the propriety of the balance. However, SLED does not maintain any documentation of this follow-up by the captain. At June 30, 1996, three of the 19 agents with balances greater than the allowable \$450 failed to return their

monthly confirmations and SLED has no documentation of the status of these agents' investigations and the intended purposes for the monies. Of the 19 agents whose balances were greater than \$450, three agent's accounts had been inactive from three to five months.

In our prior report on the Division, we noted similar deficiencies in documentation, monitoring the confidential fund, and balances in excess of the maximum.

As of the date of this report the conditions described above still exist. At June 30, 1997, 23 agents had account balances greater than \$450. The Division could not provide documentation supporting the agents' need for maintaining such balances.

An effective internal control structure includes control procedures that provide adequate safeguards over access to and use of assets as well as independent checks on performance and proper valuation of recorded amounts. The Division's procedures do not adequately monitor inactive balances; minimize outstanding receivables; control adherence to the \$450 maximum; document the propriety of balances for missing confirmations; and clear balances when an agent leaves the Division.

Specific Procedure A.2. in policy No. 13.31, Use of the Discretionary Fund in Investigations, of SLED's Policy and Procedures Manual requires a quarterly audit of the confidential fund to be performed in order to evaluate the continued integrity of the funds and the need for any additional controls. As reported in the 1996 State Auditor's report, the Division's last audit of the confidential fund was for the period July 1, 1995, through March 31, 1996, the results of which were contained in a report dated May 10, 1996. We again recommend the Division implement the following procedures:

1. Review the \$450 maximum contingency fund policy to determine the propriety of the limit.

2. Closely monitor any agent's accounts receivable balance that is greater than the authorized limit and document reasons for authorized exceptions.
3. Closely monitor each inactive balance and document justification for the agent's maintaining the balance.
4. Investigate accounts for all unreturned monthly confirmation letters and document the propriety of each of these account balances.
5. Establish procedures to ensure that all terminating agents clear their accounts receivable balances as part of the exit interview process.
6. Document any policy additions and/or changes in the established procedures for the confidential fund.
7. Perform quarterly audits of the confidential fund or modify the Division policy on the frequency of the audits and timely report the results.

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, 1996, and dated June 2, 1997. We determined that the Division has taken adequate corrective action on the Witness Fees deficiency. However, we determined that the Division has not taken adequate corrective action on the Payroll Calculations, Personnel/Payroll Records and Procedures, Closing Packages, Transaction Accounting Treatment, Accounting for Subfund 3468, and Discretionary Fund deficiencies. We have repeated those findings in Sections A and B of this report.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

AGENCY RESPONSE TO AUDIT FINDINGS Fiscal Year Ended 1996-1997

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

Payroll Calculations

We recommend the Division adhere to all State laws and regulations including those covering employee pay.

1. The accounting department should ensure that employees are familiar with Division policies pertaining to overtime pay and procedures for processing other non-routine pay including partial periods and termination pay.
2. Procedures should be developed and implemented to ensure that time sheets are approved by the employee's supervisor.
3. Payroll calculations should be independently checked for clerical accuracy and information in those computations should be independently verified with supporting documentation.

Payroll Calculations Response

The Division has begun to make improvements in recommended areas. Trained staff has been hired and internal procedures have been changed to address the findings.

Personnel/Payroll Records and Procedures

We recommend the Division adhere to all State laws and regulations including those covering personnel records.

1. The accounting and personnel departments should develop and implement procedures to ensure the proper authorization, processing, and recording of personnel and payroll actions.
2. Procedures should include independent checks to ensure the forms are properly completed and the information on the forms are accurate and supported by source documentation (e.g. leave records, personnel status sheets, etc..)
3. Personnel and payroll actions should be signed by the preparer and approved by authorized personnel.
4. The personnel system program should be modified to capture information pertaining to temporary employees so listings similar to those generated for permanent employees can be obtained.
5. Procedures should be developed and implemented to ensure that personnel and payroll actions are processed in a timely manner so employees can be removed from the personnel and payroll department' systems in a timely manner.

Payroll and Personnel Procedures and Records Responses

The Division has taken steps to correct several of the audit findings mentioned above. In accordance with the recommended procedures, the Division is currently seeking the best possible, integrated budgeting/accounting/personnel/payroll system to address these findings. In addition, the Division has made internal restructuring, reassigned payroll duties and have hired trained staff in Human Resources who are currently addressing these exceptions. Internal procedures have been established and are being implemented as recommended.

Expenditures

We recommend the accounting department develop and implement procedures to ensure that the Division is in compliance with State laws, rules, and regulations (i.e., notifying vendors to send invoices directly to the accounting department, ensuring that departments forward invoices directly to the accounting department upon receipt, etc.).

Expenditures Response

Procedures are currently in place to ensure that documents are forwarded to proper area for processing to avoid untimely payment of obligations.

Closing Packages

We recommend the accounting department comply with GAAP Manual instructions when preparing closing packages. The accounting department should ensure that personnel responsible for completing and reviewing the closing package are familiar with closing package manual instructions and know who to contact at the Comptroller's Office whenever they have questions or concerns about the instructions.

Closing Packages Response

The Division concurs with auditor's recommendation and is making efforts to implement recommendations.

1. *The accounting department will maintain a timely updated lease file which will include the lease classification information and analysis and other necessary documentation for each lease.*
2. *The Division has taken steps to change its leave liability report program for it to separately report holiday and overtime compensatory leave.*

Transaction Accounting Treatment

1. We recommend that the Division establish policies and practices and provide training to employees, as necessary to help ensure that its accountants are knowledgeable regarding the proper accounting treatment and transaction coding.
2. We also recommend that the Division for reimbursement type grants request reimbursement based on actual expenditures without rounding up to the nearest dollar.
3. We again recommend the Division discontinue its practice of "transferring cash" by means of revenue account adjustments in different subfunds and/or separate cost centers in the same subfund. Matching expenditures should be recorded in the proper subfund and cost center accounts. To present a more accurate account, the Division should establish source and use cost center(s) within the same subfund as necessary for various Division activities.

Transaction Accounting Treatment Response

The Division is committed to providing continuous training to employees to help ensure that staff are knowledgeable regarding proper accounting treatment and transaction coding of all types of transactions. An Employee Tuition Assistance Program is currently being reviewed which will enable staff to seek additional structured training and enhance professional growth within the Division. A Grants section was created in fiscal year 1998 to coordinate grant activities and to make certain proper procedures are implemented. Corrective procedures are being followed to ensure that cash transactions are treated properly.

Accounting For Subfund 3468

We recommend the Division implement the following accounting procedures and internal controls to properly track and account for the various activities currently recorded in subfund 3468:

1. In the agency's accounting records, account for cash transfers between subfunds or between cost centers within the same subfund as operating transfers out (not reductions of revenue) in the disbursing cost center and operating transfers in (not additions of revenue) in the receiving cost center.

2. In STARS, contact the State Comptroller General's Office to determine proper transaction codes to use for operating transfers. Establish and use these separate codes for cash transfers between subfunds or between cost centers within the same subfund.
3. Establish a federal (5000 series subfund for the federal forfeiture program. Continue to account for the state forfeiture program in the earmarked (3468) subfund.
4. Record all federal program/grant activity in the federal subfunds.
5. When federal forfeiture program funds are used for allowed specific purposes which the Division wants to separately track (such as helicopter expenditures and grant match), establish additional cost centers in such a manner that the source and use of the funds are tracked. For example, create two helicopter cost centers with one being funded from operating revenue and the other from the federal forfeiture program revenue.
6. Do not commingle programs in the same subfund or cost center which represent distinct activities and should be accounted for and reported separately.

Accounting for Subfund 3468 Response

Recommended procedures are being implemented by Division the agency. Cost centers have been established to track source and use of funds. The practice of commingling programs in the same subfund or cost center was a one-time error and should not re-occur.

Section B – Other Weaknesses Not Considered Material

Discretionary Fund

We recommend the Division implement the following procedures:

1. Review the \$450 maximum contingency fund policy to determine the propriety of the limit.
2. Closely monitor any agent's accounts receivable balance that is greater than the authorized limit and document reasons for authorized limit and document reasons for authorized exceptions.
3. Closely monitor each inactive balance and document justification for the agent's maintaining the balance.
4. Investigate accounts for all monthly confirmation letters that have not been returned and document the propriety of each of these account balances.
5. Establish procedures to ensure that all terminating agents clear their accounts receivable balances as part of the exit interview process.
6. Document any policy additions and/or changes in the established procedures for the confidential fund.
7. Perform quarterly audits of the confidential fund and timely report the results.

Discretionary Fund Response

Procedures are currently in place, as recommended to ensure proper management of Discretionary Funds.

Section C – Status of Prior Findings Response

The Division has taken adequate corrective action on the prior year audit findings on the Witness Fees deficiency. The Division continues to take steps to correct other prior year audit findings.