

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

STATE AUDITOR'S REPORT

JUNE 30, 2001

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 12, 2002

The Honorable Jim 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 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, 2001, 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. 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 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 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 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.

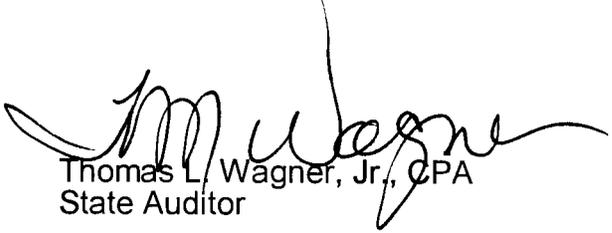
The Honorable Jim Hodges, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
April 12, 2002

6. We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2001, 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 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 2001. Our findings as a result of these procedures are presented in Closing Packages 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, 2000, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Miscellaneous Revenues subsection of Closing Packages 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, 2001, 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 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, 2001, 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. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Division's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

The Honorable Jim Hodges, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
April 12, 2002

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.

CLOSING PACKAGES

Introduction

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.

Compensated Absences

The Department used the wrong amount on its leave liability report when reporting annual leave on the compensated absences closing package. Rather than reporting the actual June 30 leave balance, the preparer picked up the amount from the printout that excluded hours in excess of those allowed by law for payments to terminating employees. The error understated annual leave \$355,188 or approximately 10%. The reviewer's checklist in the GAAP Manual asks several questions, two of which would aid the reviewer in detecting this error. The first question asks the reviewer to explain the reasons for significant variances between prior and current reported amounts. We determined that reported leave decreased approximately 8% while personal service expenditures increased almost 6%. The reviewer's response on the checklist indicated this step was done but we found no documented explanation in the closing package workpapers. The second question on the checklist asks the reviewer if the *entire* leave balance was reported and suggests the reviewer to select a sample of employee balances to review. The reviewer responded "yes" to the question even

though the entire balance was not reported and there was no documentation that a sample was reviewed. We noted other compensated absences closing package errors in our prior State Auditor's report.

Section 3.17 of the GAAP Manual provides guidance on the completion of the closing package and the reviewer's checklist specifically stating "An effective review is essential to minimizing closing package errors. As such, it is an important internal control."

We again recommend that the compensated absences closing package be completed and reviewed by staff thoroughly familiar with the GAAP Manual and the agency data required to be reported on the closing package. The agency should establish procedures and/or revise its leave liability report to reduce the potential for errors. Further, the supervisor should perform an effective review of the closing package by completing the required reviewer's checklist including documenting the work performed, where applicable.

Miscellaneous Revenues

Sections 23-3-620 and -670 of the 1976 South Carolina Code of Laws, as amended, require offenders meeting certain criteria to provide DNA samples to SLED for inclusion in the State's DNA Database and to pay a \$250 processing fee. The law authorizes the Division 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 72.63 of the 2000-2001 Appropriation Act requires the South Carolina Departments of Corrections (SCDC), of Probation, Parole, and Pardon Services (DPPPS), and of Juvenile Justice (DJJ) to collect and remit those fees to SLED. Beginning in fiscal year 1999 SCDC identified inmates meeting the criteria in effect for that year (section 23-3-620 criteria was revised effective July 1, 2000) and provided DNA samples to SLED for each qualifying inmate. SCDC also began collecting from inmate accounts amounts to pay the processing fee. (We were told by Division personnel that SLED did not receive from DPPPS or DJJ during fiscal year 2001 DNA fees for qualifying

offenders or fee remittances related thereto.) The Division has not worked with SCDC to record accounts receivables and deferred revenues for all qualifying offenders who have provided DNA samples. Because SLED did not determine and report these receivables on its miscellaneous receivables closing package, 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.) This is a continuing condition which we first reported in the prior State Auditor's report.

Section 3.4 of the GAAP 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, related allowance for doubtful accounts, and deferred revenue 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, 2000, and dated May 8, 2001. 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 Closing Packages comment in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

AGENCY RESPONSE TO AUDIT FINDINGS
Fiscal Year End - 2001

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

Closing Packages

- 1. Compensated Absences** - Recommend the compensated absences closing package be completed and reviewed by staff thoroughly familiar with the GAAP manual and the agency data required to be reported on the closing package.
- 2. 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, related allowance for doubtful accounts, and deferred revenue in accordance with GAAP Manual instructions.

Closing Packages Response

- 1. Compensated Absences Closing Package was completed by staff thoroughly familiar and properly trained with GAAP Manual and procedures. Error that occurred on annual Leave Liability Report was an oversight. The leave report was calculated correctly. However, the incorrect amount reported was labeled "liability" and the correct amount that should have been reported was labeled "actual". The preparer inadvertently picked up the liability amount instead of the actual amount on the GAAP Forms. While familiarity with the GAAP Manual would not have prevented this type of error, a review of the GAAP Procedures for Compensated Absences will be completed, as it is out intent to prevent future errors.*
- 2. Miscellaneous Revenues - The other participating agencies are given the responsibility of collecting DNA fees and submitting to SLED the revenues to fund the program. The Division has no way of knowing what is outstanding. The Division will coordinate with the other agencies responsible for collecting DNA fees to obtain a list of qualifying offenders. The Division makes the assumption that the other agencies responsible for collecting fees are also responsible for reporting receivables. If SLED reports receivables too, receivables would be duplicated and overstated on Comptroller General's Financial Statements.*

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