

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 1998**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
EXPENDITURES	6
CLOSING PACKAGES	
Operating Leases	7
Compensated Absences	8
Miscellaneous Revenues	9
Fixed Assets	10
Accounts Payable	10
TRANSACTION ACCOUNTING TREATMENT	11
REVENUE RETENTION AND CARRY-FORWARD AUTHORITY	12
PAYROLL CALCULATIONS	
Overtime Pay	14
Termination Pay	14
Regular Pay	15
PERSONNEL/PAYROLL RECORDS AND PROCEDURES	
Leave Records	16
Hire and Termination Dates	16
SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL	18
DISCRETIONARY FUND	19
SECTION C - STATUS OF PRIOR FINDINGS	22
MANAGEMENT'S RESPONSE	23

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 13, 1999

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

We have performed the procedures described below, which were agreed to by the management of the South Carolina Law Enforcement Division, solely to assist you in evaluating the performance of the Division for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Revenue Retention and Carry-forward Authority in the Accountant's Comments section of this report.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Division, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Expenditures and Discretionary Fund in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our 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 operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries 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.
6. We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 1998, 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 1998. Our findings are described in Procedures 1, 2, 3, 8 and 9.
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, 1997, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Expenditures, Closing Packages, Transaction Accounting Treatment, Payroll Calculations, Personnel/Payroll Records and Procedures, and Discretionary Fund 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, 1998, 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 and Expenditures 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, 1998, 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.

The Honorable James H. Hodges, Governor  
and  
Chief Robert M. Stewart  
South Carolina Law Enforcement Division  
April 13, 1999

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.

This report is intended solely for the information and use of the Governor and of the Chief and management of the South Carolina Law Enforcement Division and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

**SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

## EXPENDITURES

We concluded that the Division paid fiscal year (FY) 1997-1998 obligations totaling \$76,453 in FY 1999. Of this amount, one transaction for \$69,559 relates to an invoice included in our year-end cutoff test of expenditures for items shipped, according to the vendor's invoice, in early June 1998 from a company located in Columbia. Therefore, it is likely the goods were received in June; consequently, the Division had sufficient time to examine the items prior to fiscal year close-out, and to timely process the receiving report and invoice for payment in FY 1998. However, the receiving report was not signed until after FY 1998 was closed. We identified the additional \$6,894 of payments from the wrong fiscal year's funds during our review of the accounts payable closing package. Thereon we noted ten instances from a sample of thirteen vouchers in which the agency received goods and services in FY 1998 but did not pay for them until FY 1999. For six of the ten, Division departments received invoices for \$2,717 directly from the vendors but did not forward these invoices to the accounting department in time for them to be paid in the proper fiscal year. For the other four invoices, the accounting department had the receiving reports but did not follow up with vendors to get the invoices for \$4,177 in time to process them for payment in FY 1998. Similar findings were noted in our prior report.

Section 2 of the 1997-98 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 1997-98, and for other purposes specifically designated."

We again recommend the accounting department develop and implement procedures to help ensure that the Division is in compliance with State laws, rules and regulations. Such procedures should include notifying all vendors to send invoices directly to the accounting departments; contacting vendors at fiscal year-end for invoices related to goods and services

received through June 30; and issuing close-out instructions to departments requiring them to complete receiving reports immediately upon receipt of goods and services and to forward receiving reports and vendor invoices to the accounting department immediately.

### **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 continued to incorrectly classify as operating leases four agreements that met the criteria for capitalization and should be reported as capital leases. (These four leases were also identified as exceptions in the State Auditor's report on the Division for fiscal year 1997.) In addition, lease registers submitted on four operating leases reported incorrect present value amounts and the shaded areas of two lease registers were incomplete. (Similar findings have been reported in the Division's last four State Auditor's Reports.)

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. Further, accounting personnel do not thoroughly review lease registers upon completion.

Section 3.19 of the GAAP Manual provides guidance for completing operating lease closing packages and directs the preparer to the State Treasurer's Lease Reporting Package for definitions and instructions for completing capital lease and installment purchase information.

We again recommend that lease registers be completed and reviewed by staff trained in lease accounting and thoroughly familiar with GAAP Manual and State Treasurer guidance and instructions to ensure that all leases are properly classified and reported and that lease registers and other forms have been properly completed in their entirety. The reviewer should ensure that the four criteria for determining the classification of leases have been properly applied. We again recommend that the lease files be maintained centrally by the accounting department. Accounting, data processing, and forensic-sciences personnel should participate in the preparation and review of lease information on the State Treasurer and GAAP Manual forms to ensure lease payments and obligations are reported properly and forms are completed in accordance with instructions. 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.

### **Compensated Absences**

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 separate amounts of holiday and overtime compensatory leave. During this process for fiscal year 1998, the accounting department made several errors as follows. First of all, the accounting department valued and reported holiday compensatory time at \$27,541 which overstates the balance by an undetermined amount for overtime compensatory leave. Second, \$25,011 of holiday compensatory time was reported as overtime compensatory time. (Similar findings were noted in the State Auditor's Reports for 1997 and 1996.)

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 again recommend the accounting department request a change to the leave liability report program so that holiday and overtime compensatory leave balances are separately identified by employee. Until the change is made, we recommend that the computations and supporting documentation used to calculate holiday and overtime compensatory leave balances be reviewed independently to ensure proper classification and valuation.

### **Miscellaneous Revenues**

The accounting department did not report an allowance for uncollectible receivables as required by Section 3.4 of the GAAP Manual that instructs agencies to estimate and report an allowance for uncollectible accounts receivables. The GAAP Manual also provides guidance on estimating an allowance based on historical data. (A similar finding was noted in our prior report.)

We again recommend that the accounting department comply with GAAP Manual instructions and report an allowance for uncollectibles computed in accordance with its established policy. To establish its method for estimating uncollectible receivables, the department should review its accounts receivable collections history. The collections history should be routinely evaluated and the policy revised as appropriate.

## **Fixed Assets**

The Division reported \$151,080 in transfers of fixed assets to other state agencies as retirements on the General Fixed Assets Summary Form. During the year the Division donated two laser printers (total historical cost of \$6,209) and a building (historical cost of \$144,871) to other state agencies. The Division also reported \$6,440 of capitalizable equipment as supplies expenditures. Finally, as noted in our Expenditures comment, the Division likely received \$69,559 in equipment prior to June 30, 1998. However, this equipment was not capitalized and included as additions on the fixed asset closing package for fiscal year 1998.

Section 3.8 of the GAAP Manual instructs agencies to report fixed assets donated to another state agency as Intra-State Transfers and to capitalize equipment with a value of \$1,000 or more and an estimated useful life of one year or more.

We recommend the Division follow GAAP Manual instructions to ensure that fixed assets transactions are properly reported on closing packages.

## **Accounts Payable**

The accounting department omitted from the accounts payable closing package \$69,559 for the purchase of computer equipment. According to the vendor's invoice, the equipment was shipped in early June 1998 from a local vendor. Therefore, it is reasonable to expect that the Division received the equipment prior to fiscal year-end. However, the accounting department did not pay for the equipment until August of the new fiscal year because the ordering department did not sign, date, and return the receiving report for processing payment until August.

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

We recommend that the Division comply with GAAP Manual requirements to ensure that all accounts payable at June 30 are properly identified and reported on the accounts payable closing package. The Division's procedures should require departments to immediately submit receiving reports to the accounting department, especially at year-end to ensure proper cutoff by fiscal year.

### **TRANSACTION ACCOUNTING TREATMENT**

Our three prior reports noted instances in which the Division used the wrong accounting treatment for transfer transactions; did not have adequate supporting documentation for reimbursements of expenditures; did not fully recover its reimbursable costs; and/or did not adequately document whether transactions were revenues or reimbursements of expenditures. The accounting department did not understand the accounting effects for each of these transaction classifications and accounting treatments. Its main goal was to record cash or transfer cash. The Division again used improper accounting treatment for the following transactions in fiscal year 1998.

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 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 bill agencies for or recover costs of 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 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. The Division received funds from State agencies for fingerprint analyses, all of which it recorded as reimbursements of expenditures.

We continue to recommend that the Division establish appropriate policies and practices and provide adequate training to employees to help ensure that its accountants are knowledgeable regarding the proper accounting treatment and transaction coding for all types of transactions. The Division should seek guidance from Central State Finance in the State Comptroller General's Office and/or from the Office of the State Auditor in determining how to properly record its various revenue and expenditure transactions by transaction category and fund/object coding.

### **REVENUE RETENTION AND CARRY-FORWARD AUTHORITY**

Section 23-3-50 of the South Carolina Code of Laws provides that "all revenue from fees and licenses received by the State Law-Enforcement Division related to enforcement and regulation of private detective and security companies ... gun dealers ... gun permits ... and massage parlors shall be remitted to the State Treasurer as collected and credited to the general fund of the State." Whereas, Code Section 40-17-160 provides that SLED should use fees collected from detective and private security agencies in the administration of Chapter 17 provisions applicable to those activities. Thus, State Law makes a distinction between the disposition of revenues from detective and security company fees and licenses "related to enforcement and regulation of private detective and security companies" and those to be used to administer the Division's responsibilities for that industry.

While testing the Division's compliance with laws regarding collection and retention or remission of revenues, we found that for fiscal year 1998 the Division allocated Section 23-3-50 and 40-17-160 collections between operating revenues retained by the Division in its 3035 earmarked fund and amounts remitted to the State General Fund. However, the Division did not have documentation supporting its method of allocation.

The Division stated that the allocation was made in accordance with Proviso 34.3 of the 1998 Appropriation Act which states, "The Department of Public Safety is hereby authorized to charge and collect additional license and registration fees for private detective businesses, private security businesses, including employees of these businesses, and companies which provide private security on their own premises. The funds generated will be retained by the Department and used for the purpose of providing additional security in the Capitol Complex area." We were told the Division believes that this proviso also applies to it because it was responsible for Capitol Complex security prior to State government restructuring enacted in 1993 and because it continues to collect detective and security fees pursuant to Section 23-3-50 of the South Carolina Code of Laws. Therefore, in order to comply with the 1998 proviso, the Division transferred a portion of the fees to the Department of Public Safety. [We did not try to determine whether the "additional license and registration fees" in Proviso 34.3 to be collected by the Department of Public Safety (DPS) are part of or in addition to the detective and security company fees prescribed in Code Sections 23-3-50 and 40-17-160 to be collected by SLED.]

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

Proviso 72.46 of the 1998 Appropriation Act requires each agency to perform a jurisdictional audit to identify laws, regulations, and provisos that are not being used or relate to activities that no longer need to be regulated. Furthermore, the proviso requires the agency to draft proposed repeals for any laws identified in the process.

We recommend that the Division work with DPS to determine which agency is responsible for collecting which fees for private detective and security companies. In addition, the Division should seek guidance from appropriate central state government agencies in

determining the appropriate disposition of and allocation methods and accounting treatments (in SLED's system and in STARS) for fee collections. The Division should formally document the applicable legal authority to collect each fee type and its method of allocating each among its funds, the State General Fund, and other agencies. When the Division determines that it is authorized to retain any or all of a particular fee type, it should also document the restricted purposes, if any, for which the retained monies must be expended. In addition, the Division should perform the required jurisdictional audit. Finally, the Division should formally document its communication with appropriate Division personnel of additions, changes, and deletions to laws and regulations affecting the agency.

## **PAYROLL CALCULATIONS**

### **Overtime Pay**

We tested the accuracy of certain payroll transactions that included overtime pay. Four of the 12 tested contained errors. All errors occurred because the employees' overtime hours paid included annual, holiday, and/or sick leave time. State Human Resources Regulation 19-703.04 A. states that leave time, either holiday or other paid or unpaid leave, should not be included when calculating overtime hours. The payment errors were not material but their occurrence indicates that accounting controls for overtime calculations are not adequate to ensure that errors do not occur and employees detect and correct any errors that do occur in a timely manner.

### **Termination Pay**

Three of the 25 termination pay transactions in our sample contained errors that resulted in a total underpayment to employees of \$183 and total overpayments of \$2,167. The errors occurred during the calculation of final pay to employees terminating employment

with the agency because the Division used incorrect salary rates and leave balances and miscounted the days worked in the final pay period. The errors appear to be the result of inadequate control procedures. We reviewed the supporting payroll files and determined that the Division has no formal procedures for documenting final pay calculations and it uses inconsistent computation methods. It also appears that review and verification procedures are not adequate for ensuring accuracy of pay calculations and adequacy of support documentation.

### **Regular Pay**

We tested the initial pay for 25 new employees and identified errors in three. Also two of the 25 payments to temporary employees tested contained errors. The errors resulted in overpayments to three employees of \$450, \$260, and \$249 and underpayments to two employees of \$54 each. These errors occurred because the Division used incorrect salary and hourly rates in four of the transactions and paid an employee twice for the same pay period in the fifth transaction (the employee switched from temporary to permanent status and was inadvertently paid under each status for the same pay period).

Similar weaknesses in calculating payroll amounts for overtime, at termination, to new hires, and for temporary and permanent status employees have been reported in prior State Auditor's Reports on the Division's financial performance.

An effective accounting system includes documentation and control procedures (e.g., independent checks on performance and recording of transactions; supervisory review and approval of transactions) to ensure proper authorization, processing and recording of transactions; accurate computation of disbursement amounts; and the accuracy and completeness of the supporting documentation and accounting records. Section 8-11-30 of the South Carolina Code of Laws states, "It is unlawful for a person: (1) to receive a salary

from the State or any of its departments which is not due; or (2) employed by the State to ... pay salaries or monies that are not due.”

We recommend the Division adhere to all State laws and regulations covering employee leave and pay. The accounting department should ensure that its employees are knowledgeable about State Human Resources Regulations pertaining to overtime, partial period, leave, and termination pay. Procedures should also be developed and implemented by the accounting department to ensure that final pay calculation methods are formalized and consistently used; payroll calculations are independently checked for clerical accuracy, and information in those computations (e.g., pay rates, hours worked, leave balances) is independently verified with supporting documentation.

## **PERSONNEL/PAYROLL RECORDS AND PROCEDURES**

### **Leave Records**

We found that it took the Division up to eight months after termination of employment to remove three of the 25 employees in our test from the leave liability report. We were told that employees are kept on the system until the personnel department is certain that all payroll and personnel actions have been processed and completed. Effective management practices and internal controls require that terminated employees be promptly deleted from payroll and leave systems.

### **Hire and Termination Dates**

The Division uses personnel status sheets to document employee history information such as hire date, termination date, salary, promotions, etc. During our test of transactions for 25 terminated employees, we noted that for 10 employees the termination dates documented on the personnel status sheets differed from those entered on the termination listing (a

cumulative listing of all employees who terminated employment during the year). The dates recorded on the termination listing were the dates on which the personnel actions were entered, rather than the effective dates of termination. In another case, an employee's personnel status sheets showed the temporary employee terminated on November 1, 1997, and the Division rehired him on January 2, 1998. However, payroll records show that his employment continued during the period between the two dates. We were told that the personnel status sheets had not been processed.

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; the accuracy of the accounting records; and the adequacy of supporting documentation.

Similar findings regarding errors in leave records and termination dates were noted in the prior State Auditor's Report.

We recommend that both the accounting and personnel departments develop and implement procedures to ensure the proper authorization and the accurate and timely processing and recording of personnel and payroll actions. The procedures should include independent checks to ensure forms are properly completed and information on each form is accurate and supported by documentation (e.g., leave records, personnel status sheets). We also recommend that the personnel and payroll departments implement procedures to ensure that personnel and payroll actions are properly processed so that employees are promptly and accurately paid and terminated employees are promptly removed from the leave and payroll systems.

**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 and repeated in the 1997 report.

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.

In the State Auditor's report on the Division for fiscal year 1997, we noted that 23 agents had account balances greater than the \$450 maximum. And as of the date of this report, the conditions described above still exist. At June 30, 1998, thirty agents had account balances greater than \$450. The Division could not provide documentation supporting the agents' need for maintaining such balances.

Effective internal control includes 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 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 two most recent State Auditor's Reports, 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.
8. Timely report the results of each audit of the fund.

We were told that the Division began implementing these procedures during fiscal year 1999.

## **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, 1997, and dated August 17, 1998. We have determined that the Division has taken adequate corrective action on only one finding, the Accounting for Subfund 3468 deficiency. However, we determined that the Division has not taken adequate corrective action regarding the Payroll Calculations, Personnel/Payroll Records and Procedures, Expenditures, Closing Packages, Transaction Accounting Treatment, and Discretionary Fund deficiencies. We have repeated those findings in Sections A and B of this report.

**MANAGEMENT'S RESPONSE**

AGENCY RESPONSE TO AUDIT FINDINGS  
Fiscal Year Ended 1997-1998

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

**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, contacting vendors at fiscal year-end for invoices related to goods and services received through June 30, and issuing close-out instructions to departments requiring them to complete receiving reports immediately upon receipt of goods and services and forward reports and vendor invoices to the accounting department immediately).

**Expenditures Response**

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

**Closing Packages**

Each agency is responsible for submitting accurate and complete closing package forms in accordance with GAAP procedures. The GAAP Manual recommends an effective review of each closing package and the underlying working papers to minimize errors and omissions. Several recommendations are made in reference to agency closing packages.

**Closing Packages Response**

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

1. *The lease file is centrally maintained.*
2. *The leave liability reporting system has been modified to separately calculate totals of holiday and overtime compensatory time and to support each component of the compensated absences liability.*
3. *Procedures have been established to estimate uncollectible receivables. Agency collection history will be reviewed continuously and reported in accordance to established policy.*
4. *Fixed assets activity will be reported in accordance with GAAP procedures.*
5. *Procedures have been established to ensure that accounts payables at June 30 are properly identified and reported in appropriate year.*

**Transaction Accounting Treatment**

We recommend that the Division establish policies and procedures 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.

**Transaction Accounting Treatment Response**

*The Division is committed to providing continuous training to employees to help ensure that staff is 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. Corrective procedures are being followed to ensure that cash transactions are treated properly.*

### **Revenue Retention and Carry-Forward Authority**

1. We recommend that the Division work with DPS to determine which agency is responsible for collecting which fees for private detective and security companies.
2. The Division should seek guidance in determining the appropriate disposition of and allocation methods and accounting treatments for fee collections.
3. The Division should formally document the applicable legal authority to collect each fee type and its method of allocating each among the various funds.
4. When the Division determines that it is authorized to retain a particular type fee, it should document the restricted purposes, if any, for which the retained monies must be expended.
5. The Division should formally document its communication with appropriate Division personnel of additions, changes, and deletions to laws and regulations affecting the agency.

### **Revenue Retention and Carry-Forward Authority Response**

*The revenue and carry-forward authority is legislatively mandated. The Division commits to following appropriate procedures to ensure compliance with State laws and guidelines.*

### **Payroll Calculations**

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

1. The accounting department should ensure that employees are knowledgeable about State Human Resources Regulations pertaining to pay procedures.
2. Procedures should be developed and implemented to ensure that final pay calculation methods are formalized and consistently used.
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**

*Suggested recommendations are in practice. Trained staff has been hired and internal procedures have been changed to avoid subsequent audit 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 properly completed, accurate and supported by documentation.
3. 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 department' systems in a timely manner.

### **Payroll and Personnel Procedures and Records Response**

*The Division has taken steps to correct audit findings mentioned above. In accordance with the recommended procedures, the Division is currently phasing in a new, 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.*

## **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 unreturned 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 or modify the Division policy on the frequency of the audits.
8. Timely report the results of each audit of the fund.

### **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 Accounting for Subfund 3468 deficiency. The Division continues to take steps to correct other prior year audit findings.*