

ACCOUNTANT'S COMMENTS
JUNE 30, 1999

SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL

The procedures agreed to by the Office of the State Auditor and the Department 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 Department 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 weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

1. CLOSING PACKAGE LIABILITY FOR COMPENSATED ABSENCES

Our testing of the amounts of accrued leave of 25 employees included in the schedule of compensated absences disclosed that eight were incorrect. Six employees took annual leave the last week in the fiscal year and their leave slips were not turned in timely. This resulted in an overstatement of 128.75 hours of leave time. The entry was made by the Department in July 1999 instead of June 1999.

Also two employees' accrued leave hours were not accrued at the proper rate. One employee was transferred from another agency and his years of State service with that agency were not taken into consideration. The other employee had a miscalculation in the amount accrued. Both employee accrual errors resulted in an understatement of the compensated leave balance.

Section 3.17 of the GAAP Closing Procedures Manual states that the schedule for compensated absences shall include the accumulated accrued annual leave earned by its employees which is the **actual** annual leave balance in the Department's records for each employee.

We recommend that all employees be instructed to turn in their leave slips timely so the amounts can be timely updated as of year-end. Also, should leave taken not be timely posted at fiscal year end, the Department's schedule of compensated absences should be manually adjusted. Accrued leave hours should be reviewed for accuracy.

2. CLOSING PACKAGE LIABILITY FOR NONCANCELABLE OPERATING LEASES

Our testing of 5 of the operating leases in the closing package for noncancelable operating leases disclosed that four did not have completed lease registers. The lease registers are used to determine if the leases are an operating or capital lease. The one complete lease register was not completed correctly.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must fill out a lease register form completely at the inception of each lease to help ensure that the lease is properly classified as capital or operating.

We recommend that the agency fill out and retain a lease register for each lease the agency enters into.