

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

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# *State of South Carolina*



## *Office of the State Auditor*

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

February 12, 2009

The Honorable Mark Sanford, Governor  
and  
Reginald I. Lloyd, Director  
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 (the Division) solely to assist you in evaluating the performance of the Division for the fiscal year ended June 30, 2008, in the areas addressed. The Division's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$37,300 – general fund, \$75,300 - earmarked fund and \$65,000 – federal fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Timely Deposit and Recording of Revenue in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Division, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$149,600 – general fund, \$72,300 – earmarked fund, and \$77,500 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected 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 processed in accordance with the agency's policies and procedures and State regulations.
- We inspected 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$149,600 – general fund, \$72,300 – earmarked fund, and \$77,500 – federal fund) and  $\pm 10$  percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2008, and inspected 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 accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Division's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Division's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Division's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Division and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages 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.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, prepared by the Division and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the finding 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, 2007, to determine if the Agency had taken corrective action.

Our finding as a result of these procedures is presented in Closing Packages - DNA Fee Revenue in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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



## **TIMELY DEPOSIT**

One of the twenty-five receipts tested was not deposited timely. The deposit date was thirteen days after the receipt of funds.

Proviso 72.1 of fiscal year 2008 Appropriation Act states, "...all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and service... must be remitted to the State Treasurer at least once each week."

We recommend the Division implement procedures to ensure compliance with Proviso 72.1 of the Appropriation Act.

## **PAYROLL**

### **Pay Period**

Two of the twenty-five employees tested who terminated their employment were not paid in accordance with the State's pay schedule. One employee terminated employment on October 31, 2007 and received his final compensation on December 1, 2007. The second employee terminated employment on June 16, 2008 and received his final compensation on July 16, 2008. The employees should have been paid on November 16, 2007 and July 1, 2008, respectively. The employees were not paid in accordance with the State's pay schedule because the required paperwork was not received by the Division's payroll office in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2<sup>nd</sup> of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues on a twice monthly schedule as established by the State Budget and Control Board."

We recommend the Division implement procedures to ensure that all employees are paid in accordance with the State's prescribed pay schedule.

### **Annual Leave Payout**

Section 8-11-620(A)(1) of the South Carolina Code of Laws states, "Upon termination from state employment, an employee may take both annual leave and a lump sum payment for unused leave, but this combination may not exceed forty-five days".

We found that the Division calculated the annual leave payout for two former employees using a fifty-four day base. This resulted in an overpayment of \$7,776.

Division personnel explained that it allowed certain field agents to carry forward more than forty-five days of annual leave from one year to the next and had developed a practice of compensating these employees for accumulated unused annual leave in excess of forty-five days upon the employee's death, termination, or retirement. Division personnel could not document who authorized this policy or when it began; however, they stated that the practice has been observed for several years.

We recommend the Division implement procedures to ensure compliance with applicable laws governing the payment of unused annual leave.

## **CLOSING PACKAGES**

During our review of the Division's closing packages we noted the following exceptions.

### **Compensated Absences Closing Package**

We noted that the Division overstated one employee's annual leave balance by 51.61 hours. As a result the total compensated absences amount reported for all governmental funds was overstated by \$1,392. The error occurred because leave documents were not submitted in a timely manner.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states, the State's policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30.

We recommend the Division implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package. We also recommend the Division implement procedures to ensure timely submission of leave documents.

### **DNA Fee Revenue**

Sections 23-3-620 and 23-3-670 of the 1976 South Carolina Code of Laws, as amended, requires offenders meeting certain criteria to provide DNA samples to the Division 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, Section 23-3-670 requires that persons who are required to remit a DNA sample, if they are incarcerated, to pay the entire fee before they are paroled or released from confinement. This section requires a person not sentenced to confinement to pay the fee

as a part of their sentence. The fees are primarily collected by the Department of Corrections (DC), the Department of Juvenile Justice (DJJ), and the Department of Probation, Parole, and Pardon Services (DPPPS).

Beginning in fiscal year 1999, DC began providing DNA samples to the Division for testing and has been collecting amounts from inmates for the processing fee, and DJJ and DPPPS began to do the same in fiscal year 2002. The Division has recorded revenues related to the DNA samples on a cash basis rather than when the revenue was earned. Therefore the Division does not record receivables related to the DNA revenue which it has earned but not collected and the Division has not reported the receivables to the Comptroller General's Office on its miscellaneous receivables closing package. As a result, revenues, accounts receivables, and allowance for uncollectibles reported by the Division were understated on the State's financial statements. We were not able to determine the amount of the understatements. A similar finding was noted in the fiscal years 2001, 2002, 2004, 2005, 2006 and 2007 agreed-upon procedures reports.

We recommend the Division coordinate with DC, DJJ and DPPPS to obtain a list of the qualifying offenders who owe the fee and the balance still owed in order to properly record revenues, accounts receivable, and the related allowance for uncollectibles in accordance with the Comptroller General's GAAP Closing Procedures Manual so this asset may be properly tracked, monitored, controlled, and collected.

#### **Operating Leases Closing Package**

We noted the Division excluded sales tax from the future minimum lease payments reported in Section IV of the Operating Leases Summary Form. The error results in the future minimum lease payments for fiscal years 2009, 2010, and 2011 being understated by \$75,836 for each year.

The Comptroller General's GAAP Closing Procedures Manual, Section 3.19, Operating Leases Closing Package defines executory as "costs such as insurance, maintenance, and taxes the lessee must pay in connection with leased property." Additionally, Section 3.19 of the GAAP Closing Procedures Manual states, "executory costs included as part of the minimum lease payment for operating leases are to be included on Section IV of the Summary Form. Do not break out any executory costs separately."

We recommend the Division implement procedures to ensure that the Operating Leases Closing Package is completed in accordance with the GAAP Closing Procedures Manual.

### **Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Closing Package**

Section 3.16 of the Comptroller General's GAAP Closing Procedures Manual states that agencies should report "commitments for which contracts were signed or promises were made on or before June 30 of the current fiscal year and the unperformed amounts of all commitments for the agency at June 30 totaled more than \$2 million". The Division has numerous grants with entities outside of state government which were not reported as required by the Closing Procedures Manual instructions.

We recommend the Division develop and implement procedures to ensure that grant commitments are reported on the Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Closing Package in accordance with the GAAP Closing Procedures Manual.

## **EQUITABLE SHARING OF FEDERALLY FORFEITED PROPERTY PROGRAM**

During our testing of the Schedule of Federal Financial Assistance we noted that expenditures for the Equitable Sharing of Federally Forfeited Property Program exceeded the amount of cash available for expenditure resulting in a deficit ending balance at June 30, 2008 of \$113,914. The deficit occurred because the Division charged more expenditures to this federal program than was available in anticipation of future revenue.

Section X(A)(4)(b) of the U.S. Department of Justice's A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies prohibits agencies from budgeting or spending anticipated shared property receipts.

We recommend the Division implement procedures to ensure compliance with the guidelines of the Equitable Sharing of Federally Forfeited Property Program. The Division should carefully track program expenditures to ensure that it does not expend more than it receives.

## **SECTION B - OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

## **RECORDING OF REVENUE**

The Division did not properly record one of the twenty-five receipts tested. The Division received and deposited cash receipts totaling \$46,993, however, the transaction was recorded in its accounting system as \$47,065. The error was corrected a few days later but instead of using a journal entry to correct the \$72 error the Division recorded cash receipts totaling \$54,698 in its accounting system as \$54,626.

Effective accounting procedures require accurate information to be accounted for in the accounting records, and when errors are detected to correct the errors using sound accounting procedures.

We recommend the Division implement procedures to ensure amounts posted in their accounting system agree with source documents, and to properly correct errors using generally accepted accounting principles.



## **SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Division for the fiscal year ended June 30, 2007, and dated June 11, 2008. We have repeated DNA Fee Revenue under Closing Packages in the Accountant's Comments section of this report.

## **MANAGEMENT'S RESPONSE**

# SOUTH CAROLINA LAW ENFORCEMENT DIVISION

MARK SANFORD  
*Governor*



REGINALD I. LLOYD  
*Director*

March 18, 2009

Mr. Richard H. Gilbert, Jr.  
Interim State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

Reference is made to the preliminary draft of the audit for the fiscal year ended June 30, 2008.

We have responded to the appropriate categories within each section of the auditor's comments for the audit period.

As always, we appreciate the expertise and professionalism exhibited by your staff. With best regard, I remain

Yours truly,

Reginald I. Lloyd, Director  
South Carolina Law Enforcement Division

Attachment



An Accredited Law Enforcement Agency  
P.O. Box 21398/ Columbia, South Carolina 29221-1398/ (803) 737-9000 / Fax (803) 896-2622

## Management Response to FY 08 Audit

### SECTION A

1. Timely Deposits -- the Division will implement procedures to ensure compliance with Proviso 72.1 of the Appropriation Act. "... Fees, the sale of commodities and service... must be remitted to the State Treasurer *at least once each week.*"

### PAYROLL

2. Pay Period—the division will implement and train employees and supervisors to submit required paperwork to Payroll Office in a timely manner and to ensure that all employees are paid in accordance with the State's prescribed pay schedule.
3. Annual Leave Payout—the division will implement procedures to ensure compliance with applicable laws governing the payment of unused annual leave with supporting documentations.

### CLOSING PACKAGES

1. Compensated Absences Closing Package-- the Division implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package and to ensure timely submission and approval of leave documents.
2. DNA Fee Revenue -- the Division will continue to make efforts to meet recommended action. SLED continues to record revenue based on the cash received. Under the circumstances, as discussed, we recommend that the language is modified in the law to allow SLED to be exempt from this reporting requirement.
3. Operating Lease—the sales tax will be included in the future minimum lease payment amount on the operating lease summary form.
4. Miscellaneous Loss Liabilities, Loss Contingencies and Commitments Closing Package—Homeland Security Grant commitments will be reported on the closing package.
5. Equitable Sharing of Federally Forfeited Property Program--the Division implement procedures to ensure compliance with the guidelines of the Equitable Sharing of Federally Forfeited Property Program. And, carefully track program expenditures to ensure that it does not expend more than it receives in the fiscal year.

**SECTION B**

1. Recording of Revenue-- the Division will continue to implement procedures and train the staff to ensure amounts posted in the accounting system agree with source documents and to properly correct errors using generally accepted accounting principles.

The division will continue to make efforts to meet recommended action, to ensure the requirements of State Laws, Rules, or Regulations are in place. All necessary corrections will be taken.

4 copies of this document were published at an estimated printing cost of \$1.66 each, and a total printing cost of \$6.65. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.