

SOUTH CAROLINA LAW ENFORCEMENT DIVISION
AGREED UPON PROCEDURES REPORT
JUNE 30, 2010

State of South Carolina



Office of the State Auditor

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June 7, 2011

The Honorable Nikki R. Haley, Governor
and
Mr. Reginald I. Lloyd, Director
South Carolina Law Enforcement Division
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Law Enforcement Division for the fiscal year ended June 30, 2010, was issued by WebsterRogers, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr." with a stylized flourish at the end.

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

RHGjr/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Law Enforcement Division and the South Carolina Office of the State Auditor (the specified parties), solely to assist you in evaluating the performance of the South Carolina Law Enforcement Division (the Division) for the fiscal year ended June 30, 2010, 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.

Our procedures and findings are as follows:

1 Cash Receipts and Revenues

- We inspected twenty-five recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Division's policies and procedures and State regulations.
- We inspected twenty-five 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 of South Carolina's (the State) accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. Effective November 2, 2009, the Division implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Division.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We made inquiries of management pertaining to the Division's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Division personnel performing their duties to determine if they understood and followed the described policies.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of prior year. We investigated changes in the general, earmarked and federal funds to ensure that revenue was classified properly in the Division's accounting records. The scope was based on agreed upon materiality levels of \$40,000 in the general fund, \$100,000 in the earmarked fund and \$90,000 in the federal funds and \pm ten percent.

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

2 Non-Payroll Disbursements and Expenditures

- We inspected twenty-five recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Division'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 twenty-five 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. Effective November 2, 2009 the Division implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Division.
- 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 the expenditures were properly classified in the Division's accounting records. The scope was based on agreed upon materiality levels of \$140,000 for the general fund, \$90,000 for the earmarked fund and \$97,000 for the federal funds and \pm ten percent.

The individual transactions from the Division's legacy system were chosen randomly. The individual transactions from SCEIS were chosen judgmentally. Our findings as a result of these procedures are presented in Section B of the Accountants' Comments section of this report under the "Transaction Documentation" heading.

3 Payroll Disbursements and Expenditures

- We inspected twenty-five 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 Division'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 five new employees and five of those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Division's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employees 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. Effective November 2, 2009, the Division implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Division.
- 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 Division's accounting records. The scope was based on agreed upon materiality levels of \$140,000 for the general fund, \$90,000 for the earmarked fund and \$97,000 for the federal fund and \pm ten percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed 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 five percent to ensure that payroll expenditures were classified properly in the Division's accounting records.

The individual transactions were chosen randomly. Our finding as a result of these procedures is presented in Section A of the Accountants' Comments section of this report under the heading of "Object Codes".

4 Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected ten recorded journal entries, all operating transfers, and all 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 were documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the Division's policies and procedures and State regulations.

The individual transactions 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 Division's policies and procedures and State regulations.

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

6 Reconciliations

- We obtained all monthly reconciliations prepared by the Division through October 31, 2009, for the year ended June 30, 2010, 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 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. Effective November 2, 2009, the Division implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Division.

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

7 Appropriation Act

- We inspected Division documents, observed processes, and/or made inquiries of Division personnel to determine the Division's compliance with Appropriation Act general and Division 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, 2010, 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 finding as a result of these procedures is presented in Section A of the Accountants' Comments section of this report under the heading of "Closing package – DNA Fee Revenue".

9 Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, 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 and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of these procedures.

10 SCEIS Implementation

- We compared cash, revenue and expenditure account closing balances from the Division's legacy system to opening balances input into SCEIS to ensure the Division carried forward the proper account balances to SCEIS.

We found no exceptions as a result of our procedures.

11 Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Division resulting from their engagement for the fiscal year ended June 30, 2008, to determine if the Division had taken corrective action. We applied no procedures to the Division's accounting records and internal controls for the year ended June 30, 2009.

Our finding as a result of these procedures is presented in Section A of the Accountants' Comments section of this report under the heading of "Closing package - DNA Fee Revenue."

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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, the management of the South Carolina Law Enforcement Division, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Columbia, South Carolina
June 6, 2011

ACCOUNTANTS' 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 Division require that we plan and perform the engagement to determine whether any noncompliance with State Laws, Rules or Regulations occurred.

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

CLOSING PACKAGES

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, the Department of Juvenile Justice, and the Department of Probation, Parole, and Pardon Services.

As was noted in both the 2010 and 2008 Agreed-upon Procedures Report 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 receivable, and allowance for doubtful accounts reported by the Division were understated on the State's financial statements.

We recommend the Division coordinate with the Department of Corrections, the Department of Juvenile Justice and Department of Probation, Parole and Pardon Services 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 doubtful accounts in accordance with the Comptroller General's GAAP Closing Procedures Manual so that this asset may be properly tracked, monitored, controlled and collected.

OBJECT CODES

The Division received a federal grant that was used to pay salaries. The entire amount of fringe benefits and payroll taxes on these salaries was recorded using object code 1303 – Retirement Police Officers instead of allocating them to the proper payroll tax expense and fringe benefit object codes.

The Comptroller General's Statewide Accounting and Reporting (STARS) Manual provides definitions for object codes to help State agencies properly classify revenues and expenditures.

We recommend that Division personnel who assign account classification codes to receipt and expenditure documents, as well as those who review and approve those documents, be knowledgeable of STARS object code definitions.

SECTION B – OTHER WEAKNESS

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

TRANSACTION DOCUMENTATION

The Division rents office space from Wesley Memorial United Methodist Church. The lease expired on June 30, 2008. The lease provides for five renewal periods, however written notice of intention to renew is required by the lease terms. The renewal options have not been properly executed by the Division. However, rental payments are being remitted in accordance with the terms of the unexecuted rental agreement.

An effective system of internal controls includes controls to ensure that accounting transactions are supported by adequate source documentation.

We recommend the Division implement procedures to ensure that all accounting transactions processed through its accounting system are supported by adequate source documentation.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountant's Comment section of the State Auditor's Report on the Division for the fiscal year ended June 30, 2008, and dated February 12, 2009. We applied no procedures to the Division's accounting records and internal controls for the year ended June 30, 2009. We have repeated DNA Fee Revenue under "Closing Packages" in Section A of the Accountants' Comments section of this report.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

MARK SANFORD
Governor



REGINALD I. LLOYD
Director

June 7, 2011

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

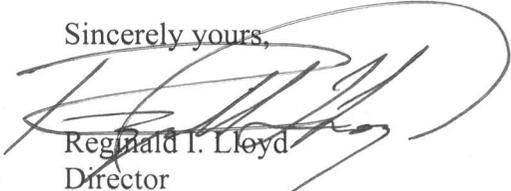
Dear Mr. Gilbert:

Reference is made to the preliminary draft of the audit for the fiscal year which ended June 30, 2010.

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.

Sincerely yours,



Reginald I. Lloyd
Director

Attachment



An Accredited Law Enforcement Agency
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Management Response to FY2010 Audit

Section A

1. Object Codes -- The Division will implement procedures to ensure fringe benefits will be allocated to proper object codes.

Section B

1. Transaction Documentation -- While written notice of intent to renew the lease was not given six months in advance, the lease was executed by issuance of a Purchase Order for the renewal term. The Division will implement procedures to ensure compliance with the terms of the lease agreement.

Section C

1. Status of Prior Findings – DNA Fee Revenue
SLED will continue to make efforts to meet the recommended action; however, the Division is dependent upon the South Carolina Department of Corrections (SCDC), the South Carolina Department of Juvenile Justice (DJJ), and the South Carolina Department of Probation, Parole and Pardon Services (SCDPPS) to collect and remit these fees to SLED. The Division will contact these agencies and request information necessary to implement a database of fees collected and deferred, and the date of these actions, in an effort to track this revenue as practicable, and as resources are available.