

**SOUTH CAROLINA LAW ENFORCEMENT DIVISION**

**Columbia, South Carolina**

**Independent Accountants' Report on**

**Applying Agreed – Upon Procedures**

**For the Fiscal Year Ended June 30, 2013**

*State of South Carolina*



*Office of the State Auditor*

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May 16, 2014

The Honorable Nikki R. Haley, Governor  
and  
Chief Mark Keel  
South Carolina Law Enforcement Division  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the South Carolina Law Enforcement Division for the fiscal year ended June 30, 2013, 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.", written in a cursive style.

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

RHGjr/trb

**SOUTH CAROLINA LAW ENFORCEMENT DIVISION**  
**Columbia, South Carolina**

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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, solely to assist you in evaluating the performance of the South Carolina Law Enforcement Division (the Division) for the fiscal year ended June 30, 2013, 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 the associated 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 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 account 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 \$39,000 in the general fund, \$120,000 in the earmarked fund, and \$210,000 in the federal funds and  $\pm$  ten percent.

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

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## 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 current year expenditures at the subfund and account 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 \$200,000 for the general fund, \$100,000 for the earmarked fund, and \$220,000 for the federal funds and  $\pm$  ten percent.

The individual transactions were chosen judgmentally. 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 "Transaction Processing."

## 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 payroll transactions for sixteen new employees and seven 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 current year payroll expenditures at the subfund and the account 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 \$200,000 for the general fund, \$100,000 for the earmarked fund, and \$220,000 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. We found no exceptions as a result of the procedures.

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

- We inspected twenty-five recorded journal entries, seven operating transfers, and twenty-five 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 judgmentally. 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 judgmentally. We found no exceptions as a result of the procedures.

## 6. **Composite Reservoir Accounts**

### *Reconciliations*

- We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2013, and inspected the June 30, 2013, reconciliation for all composite reservoir accounts, the November 30, 2012, reconciliation for the Discretionary account, and the November 30, 2012, reconciliation for the SC Midlands HIDTA account. We inspected reconciliation of balances in the Division's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if the 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 State Treasurer's Office monthly 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.

### *Cash Receipts and Revenues*

- We inspected four recorded receipts from the Discretionary account and one recorded receipt from the SC Midlands HIDTA account 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 the receipts indicated in the above paragraph to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

### *Non-Payroll Disbursements and Expenditures*

- We inspected ten recorded non-payroll disbursements from the Discretionary account and one recorded non-payroll disbursement from the SC Midlands HIDTA account 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 the non-payroll disbursements indicated in the above paragraph to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations were judgmentally selected. The individual transactions were selected 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. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting 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 "Reporting 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, 2013, 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. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures on the Division resulting from our engagement for the fiscal year ended June 30, 2012, to determine if the Division had taken corrective action.

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 "Reporting 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 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, 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  
April 29, 2014

**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.

## **REPORTING PACKAGES**

### **DNA FEE REVENUE**

#### **Condition:**

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 submit 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 the 2012, 2010 and 2008 Agreed-upon Procedures Reports, 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 reporting package. As a result, revenues, accounts receivable, and allowance for doubtful accounts reported by the Division were understated on the State's financial statements.

#### **Cause:**

Based on discussions with management, the fee has not been recorded as SLED has been unable to obtain the information needed to properly record the receivable from the Agencies responsible for collecting the fee.

#### **Effect:**

Failure to properly record the receivable increases the risk that all amounts due the State of South Carolina will not be collected.

#### **Criteria:**

An effective internal control system includes procedures designed to detect and correct errors.

#### **Recommendation:**

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 Reporting Policies and Procedures Manual so that this asset may be properly tracked, monitored, controlled, and collected.

## TRANSACTION PROCESSING

### Condition 1:

Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual states that internal control procedures for managerial and external reporting should include evaluation of the results of transaction processing. Furthermore, the manual states in footnote two of page ten that a review of the general ledger balances should be performed to identify unexpected balances, the lack of balances when amounts are expected, larger than expected balances, or smaller than expected balances. As part of our procedures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the agreed upon materiality levels in Procedure Two. The changes in the account balance for account number 5021530000 in the earmarked fund exceeded the agreed-upon amounts.

### Cause:

An incorrect account number was entered on the journal entry form recording the transaction.

### Effect:

The account balance for account number 5021530000 in the earmarked fund was understated by approximately \$132,800 and account number 5031530000 in the earmarked fund overstated by an approximate like amount.

### Criteria:

An effective internal control system includes procedures to timely detect and correct errors.

### Recommendation:

We recommend the Division evaluate the results of transaction processing in accordance with Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual.

### Condition 2:

As part of our procedures related to non-payroll disbursements and expenditures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the agreed-upon materiality levels in Procedure Two. The change in account balance for account number 5021330003 in the earmarked fund exceeded the agreed-upon amount.

### Cause:

The Division was attempting to correct a prior year error by transferring approximately \$113,740 in expenses that were incurred in a prior year in account number 5021330003 in the earmarked fund to the federal grant fund in order to submit a reimbursement claim for the expenses incurred.

### Effect:

The account balance for account number 5021330003 in the earmarked fund was understated by approximately \$113,740 and account number 5021330003 in the federal fund overstated by an approximate like amount.

### Criteria:

An effective internal control system includes procedures to timely detect and correct errors.

### Recommendation:

We recommend the Division evaluate the results of transaction processing in accordance with Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual.

## **SECTION B – 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 Independent Accountants' Report on Applying Agreed-Upon Procedures on the Division for the fiscal year ended June 30, 2012, and dated June 14, 2013. We have repeated DNA Fee Revenue under "Reporting Packages" in Section A of the Accountants' Comments section of this report.

**MANAGEMENT'S RESPONSE**

# SOUTH CAROLINA LAW ENFORCEMENT DIVISION

NIKKI R. HALEY  
*Governor*



MARK A. KEEL  
*Chief*

## Management Response to FY2013 AUP

### Section A

#### Reporting Packages

SLED met with the Department of Corrections, the Department of Juvenile Justice, and Department of Probation, Parole and Pardon Services to discuss each agency's process of collecting DNA Fees. SLED requested a list of all samples processed and fees collected by each agency. Currently, SLED received information from the Department of Corrections. SLED will continue to make efforts to obtain the information from the other agencies, and identify the outstanding balances at fiscal year end to properly record revenues, accounts receivable and the related allowance for doubtful accounts in accordance with the Comptroller General's Reporting Policies and Procedures.

#### Transaction Processing

The Division implemented an additional person to thoroughly review journal entries before processing. In addition, an effective timeline has been established for yearend adjustments to ensure accuracy.

The Division implemented a monthly grant reconciliation process to include review of expenditures, revenues, drawdown requests, indirect cost postings, and journal entry corrections. This process ensures that errors within grants are identified in a timely manner.



  
5/19/14

