

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 13, 2015

The Honorable Nikki R. Haley, Governor  
and  
Chief Mark Keel  
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, 2014, 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 twenty-five 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 twenty-five selected 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 compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted 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 (\$40,500 – general fund, \$133,400 – earmarked fund, \$10,300 – restricted fund, and \$131,200 – federal fund) and  $\pm$  10 percent.

- 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 inquired with agency personnel performing these duties to determine if they understood and followed the described policies.

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

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

- We inspected twenty-five 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 twenty-five selected 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 that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$261,900 – general fund, \$118,300 – earmarked fund, and \$108,600 – 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 twenty-six 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; and payroll transactions 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 payroll transactions for sixteen selected new employees and twelve individuals 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 current year payroll 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 that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$261,900 – general fund, \$118,300 – earmarked fund, and \$108,600 – 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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected 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 selected recorded journal entries, five operating transfers, and 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 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. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2014, and inspected two selected reconciliations of balances in the Division's accounting records to those reflected on the State Treasurer's Office monthly 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 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 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 four selected 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.

*Non-Payroll Disbursements and Expenditures*

- We inspected twenty-five 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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 findings as a result of these procedures are presented in GAAP Reporting Packages in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, 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.

9. **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 our engagement for the fiscal year ended June 30, 2013, to determine if the Division had taken corrective action.

Our finding as a result of these procedures is presented in GAAP Reporting Packages Miscellaneous Revenues Reporting Package - DNA Fees Receivable in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor  
and  
Chief Mark Keel  
South Carolina Law Enforcement Division  
August 13, 2015

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Division has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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 of the 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.



George L. Kennedy, III, CPA  
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.

## **GAAP REPORTING PACKAGES**

### **Grants and Contributions Revenue Reporting Package**

During our test of the Division's Grants and Contributions Revenue Reporting Package, we noted the ending balance for one grant included a transaction which was unrelated to the grant that caused the grant receivable to be overstated by \$2,283. The Division corrected the error in July, 2015, but did not adjust the reporting package to reflect the correction. The Division also did not include accounts payable transactions when it calculated its grants receivable balance. This resulted in an understatement of \$478,964. The accounts payable transactions should have been included as a part of the year-end accrual to recognize expenditures that have been incurred and are reimbursable by grantors.

The instructions for the Grants and Contributions Reporting Package state that agencies are responsible for accuracy of calculations; and an adjustment to the modified accrual basis of accounting is required to recognize an increase in the receivable for qualified transactions for which reimbursement has not been made.

### **Miscellaneous Revenues Reporting Package**

During our testing of the Division's Miscellaneous Revenues Reporting Package, we noted that the Division did not report the total June 30 accounts receivable balance from its accounting system. As a result, the accounts receivable balance reported on the reporting package was understated by \$603.

The instructions for the receivables reporting package state, the preparer should review the forms for accuracy and completeness and the finance director should review and approve the forms.

## Miscellaneous Revenues Reporting Package - DNA Fees Receivable

Sections 23-3-620 and 23-3-670 of the 1976 South Carolina Code of Laws, as amended, require 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 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.

During our testing of the Miscellaneous Revenues Reporting Package, we noted that the Division overstated receivables associated with the collection of DNA fee revenue. FY 2014 is the first year the Division estimated its DNA receivable balance. The Division implemented this process to address previous Accountant's Comments. Because this is a new procedure, the Division is continually developing their basis for refining its calculation. The FY 2014 estimate was based on DNA samples processed for three state agencies and the fees collected by those agencies and remitted to the Division. Because the service is performed on clients who are incarcerated, the collectability of the receivable is low. For FY 2014 the Division used the same calculation to estimate an allowance for uncollectible accounts receivable even though collection patterns at the three agencies were different. In addition, the Division classified all of the net receivable as current even though the majority of the receivable does not meet the definition of a current asset.

The Comptroller General's Policies and Procedures states: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

### Recommendation

We recommend the Division follow the policies and procedures established by the Comptroller General's Office to ensure that the appropriate reporting packages are completed in accordance with instructions. Additionally, the Division should continue to develop and improve their estimate of DNA fees receivable. The Division should start documenting trends and data for estimating allowances and current vs. non-current receivable balances.

## **SECTION B - 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 South Carolina Law Enforcement Division for the fiscal year ended June 30, 2013, and dated May 16, 2014. We determined that the Division has taken adequate corrective action on the finding for Transaction Processing. We determined that the Division has taken partial corrective action on the finding for Reporting Packages - DNA Fee Revenue. As a result, we will repeat this finding at GAAP Reporting Packages - Miscellaneous Revenue Reporting Package - DNA Fees Receivable in Section A of the Accountant's Comments section of this report.

**MANAGEMENT'S RESPONSE**

In connection with your engagement to apply Agreed-Upon Procedures to the South Carolina Law Enforcement Division, our response to the finding is below. If you have any questions, please do not hesitate to contact me.

#### Grants and Contributions Revenue Reporting Package

The accounts payable amounts for federal funds were not reported on the FY 2014 Grants and Contribution Revenue Reporting Package in error. Since then, the agency documented written procedures for completing the Grants and Contribution Revenue Reporting Package, to include reporting Accounts Payable by grant, as well as reconciling with the agency's Accounts Payable Closing Package.

#### Miscellaneous Revenues Reporting Package

We will ensure that the appropriate reporting packages are completed in accordance with the instructions.

#### Accounts Payable Reporting Package

We will ensure that the appropriate reporting packages are completed in accordance with the instructions.

#### Miscellaneous Revenues Reporting Package - DNA Fees Receivable

This is the first time the division estimated a receivable balance. The receivable balance is based on the information gathered from the other three agencies to develop a basis for the calculation. The division will continue to develop and improve the estimate of DNA fees receivable and separate the current vs. non-current receivable balances.

4 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$5.96. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.