SOUTH CAROLINA
LAW ENFORCEMENT DIVISION
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT
JUNE 30, 2000
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INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 8, 2001

The Honorable Jim Hodges, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by Chief Stewart and 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, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Division, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 on various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing 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. We tested selected recorded journal entries and operating transfers and all recorded appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries and operating transfers selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen judgmentally. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Division for the year ended June 30, 2000, and tested 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 they were accurate and complete. For the selected reconciliations, we 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.

7. We tested the Division’s compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. Our findings as a result of these procedures are presented in Closing Packages and Payroll in the Accountant’s Comments section of this report.

8. We reviewed the status of the deficiencies described in 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, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Closing Packages and Payroll in the Accountant’s Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Division and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General’s GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they 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.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Division and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Division’s financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.
The Honorable Jim Hodges, Governor
and
Chief Robert M. Stewart
South Carolina Law Enforcement Division
May 8, 2001

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

Thomas L. Wagner, Jr., CPA
State Auditor
ACCOUNTANT’S COMMENTS
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency 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 entity 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 material weaknesses or violations of State Laws, Rules, or Regulations.
CLOSING PACKAGES

Introduction

The State Comptroller General’s Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State’s financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are prepared in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends assigning the responsibilities for preparation and independent supervisory review of each closing package to knowledgeable and trained employees and recommends performing an effective review of each completed closing package and the underlying working papers to minimize closing package errors and omissions. To assist in that process, the reviewer checklist must be completed for each closing package submitted.

Operating Leases

The South Carolina Law Enforcement Division (SLED or the Division) improperly classified certain costs under a lease agreement as executory costs although none met the GAAP Manual (Section 3.19) definition of executory costs (i.e., costs such as insurance, maintenance, and taxes the lessee must pay in connection with the leased property). As a result of this error, on the operating leases closing package, future net minimum lease payments were understated and executory costs included in the minimum lease payments were overstated by $26,810 for each of the fiscal years ending June 30, 2001, through 2004. Other lease closing package errors were noted in prior State Auditor’s Reports.
We again recommend the agency assign responsibility for the completion and review of the operating leases closing package to staff trained in lease accounting and thoroughly familiar with GAAP Manual guidance and instructions and with agency data required to be reported on the leases closing package to help ensure that all lease transactions are properly classified and reported.

**Miscellaneous Revenues**

Section 3.4 of the GAAP Manual provides guidance regarding one method for estimating allowances for uncollectible accounts by receivables category (i.e., evaluating collectibility at June 30 based on historical collection data) and for reporting deferred revenue for cash collected in advance of the services being performed. The Division reported gross accounts receivables of $457,107 and an allowance of $1,764 at June 30, 2000. That gross receivables balance included a significantly past-due account balance of $10,650 but not an adequate allowance therefor. [In the prior State Auditor’s Report, we stated that the agency had a $10,650 receivable for charges billed through July 2, 1998. During the current engagement, we were told that the receivable was still outstanding and had not been written off.] The Division calculated the $1,764 allowance by computing a bad debt ratio of fiscal year 2000 write-offs to total accounts receivable outstanding at June 30, 2000, and multiplying that percentage by the balance of the receivables outstanding at fiscal year-end. This method is not reasonable for these receivables because the Division does not have written policies defining bad debts; for the timing of and methodologies for computing allowances for uncollectibles; and for the timing of and accounting for write-offs (e.g., aging of accounts receivable and writing off past due balances at a specific age). Based on our review of the nature and ages of the specific past-due accounts, we concluded the allowance for uncollectible balances at year-end 2000 is insufficient.
We also discovered that the agency had not recorded accounts receivable for fees associated with DNA samples sent to the agency for processing. Sections 23-3-620 and - 670 of the 1976 South Carolina Code of Laws, as amended, require offenders meeting certain criteria to provide DNA samples to SLED 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, for DNA sample fees collected from offenders meeting the criteria, Proviso 72.69. of the 1999-2000 Appropriation Act requires the South Carolina Departments of Corrections (SCDC), of Probation, Parole and Pardon Services (DPPPS), and of Juvenile Justice (DJJ) to collect and remit those fees to SLED. Beginning in fiscal year 1999 SCDC identified inmates meeting the criteria and provided DNA samples to SLED for each qualifying inmate. (We were told by Division personnel that SLED did not receive from DPPPS or DJJ during fiscal year 2000 DNA fees for qualifying offenders or fee remittances related thereto.) SCDC also began collecting from inmate accounts amounts to pay the processing fee. For fiscal years ended 1999 and 2000, many of the SCDC qualifying inmates still owed all or a portion of the fee. The Division has not worked with SCDC to record accounts receivables and deferred revenues for all qualifying offenders who have provided DNA samples. Because SLED did not determine and report these receivables on its miscellaneous receivables closing package, the related revenues, deferred revenues, accounts receivable, and allowance for uncollectibles were understated on the State’s financial statements. (We were not able to determine the understatements.)

Sound accounting practices require the agency to have written policies and procedures for the timing, valuation, and accounting for each type of revenue, each category of receivables, and related transactions and accounts, write-offs of receivables and the valuation
policy and methodology for computing allowances for uncollectible balances. The entity should have monitoring procedures to help ensure controls are operating effectively and applied consistently. Policies should be periodically reviewed (and modified, if appropriate, for changes in credit policy, collection history, and other factors). Section 3.4 of the GAAP Manual defines miscellaneous accounts receivable and miscellaneous revenues as transactions with parties outside of State government and, in addition, provides guidance and instructions for preparing closing packages for those and related accounts.

We again recommend the Division develop and implement policies regarding granting credit; the collection of receivables and write-off of uncollectible accounts; the valuation of its estimated allowance for uncollectible balances; and the accounting treatment for those and related accounts. Such policies should include maintaining information on its collection history and periodically aging accounts receivables to identify accounts for extra collection efforts or for write-off.

We also recommend that the Division coordinate with the other agencies responsible for collecting DNA fees to obtain a list of qualifying offenders who owe the fine and the balances still owed in order to properly record accounts receivable and revenues in accordance with GAAP Manual instructions.

**Compensated Absences**

On the compensated absences closing package, the Division incorrectly valued its annual leave and holiday and overtime compensatory leave liabilities by using the wrong leave balances for certain persons, as follows:

1. We tested a sample of 15 employee leave balances and found that the Division failed to remove the annual leave balances for five employees who terminated employment in June which overstated the liability $34,736.
2. We reviewed the leave liability report used to prepare the closing package and found that the agency failed to deduct holiday and overtime compensatory leave taken on or before June 30 which overstated the liability $1,891. We were told that the error was caused by a change in the Division’s accounting system during the year.

Section 3.17 of the GAAP Manual provides guidance on the completion of the closing package including proper valuation of the compensated absences liability and specifically instructs the preparer as follows: “Do not include annual leave for personnel who terminated their State employment during June, including June retirees.” Furthermore, the reviewer checklist asks if the balances for terminated employees are excluded. It also directs the preparer to enter the values of accumulated unused holiday and overtime compensatory times “as of June 30.”

We recommend that the compensated absences closing package be completed and reviewed by staff thoroughly familiar with the GAAP Manual and the agency data required to be reported on the closing package. The supervisor must complete the required reviewer checklist for this closing package and, as part of the “effective review”, must trace each amount to the supporting working papers and accounting records. The Division should establish procedures to ensure that its reported leave liability is net of all leave used through June 30 for each leave type and does not include any balances for employees who have terminated during the year ended June 30. We also recommend, in accordance with Section 3.17, that the supporting workpapers for this closing package “show the value of the compensated absences amounts … owed at June 30 to personnel who terminated their State employment during June, including June retirees, that you did not report” on this closing package.
Capital Leases

Section 3.19 of the GAAP Manual states, “With the exception of copiers leased under the 1999 contract, your agency is responsible for completing Lease Register forms for all leases in accordance with the State Treasurer’s Lease Reporting Package.” Lease register forms are used to determine proper lease classification, operating or capital. The Division failed to complete a lease register form for a lease entered during fiscal year 2000 and consequently misclassified that lease as operating instead of capital. As a result, the agency failed to prepare the State Treasurer’s capital lease summary form to report its capital lease long-term liability, charged its lease payment of $13,659 to incorrect object codes, understated its general fixed assets $62,512, and its capital lease liability $48,853 for fiscal year 2000.

Section 3.8 of the GAAP Manual states, “Assets covered by capital leases are fixed assets of the State even if the State does not legally own them. Agencies should include these assets in the amounts they report on the General Fixed Assets Summary Form.” Section 3.19 of the GAAP Manual requires the Division to report information regarding capital leases and general long-term debt to the State Treasurer’s Office in accordance with the State Treasurer’s lease reporting package.

We recommend that the Division implement procedures to ensure it prepares a lease register form and the capital lease summary form, if applicable, and submit the forms plus a copy of the lease agreement and other supporting documentation to the State Treasurer’s Office at inception of the lease agreement for each lease (except for copiers under the 1999 agreement). We also recommend the Division report necessary corrections in its and the State’s fiscal year 2000 accounting records to properly classify fiscal year 2001 capital lease payments. Furthermore, the agency should record the asset acquired by capital lease in fiscal year 2000 in its detail fixed assets records and in its accounting records and report a net correction to prior year balances on its fiscal year 2001 general fixed assets closing package.
Finally, for the fiscal year 2000 capital lease agreement, SLED should prepare and submit a capital lease summary form properly updated with explanation of payments made in fiscal year 2000 to the State Treasurer’s Office and should record the capital lease liability in SLED’s accounting records.

**PAYROLL**

**New Hire Pay and Final Pay at Termination of Employment**

Two of the 25 termination pay transactions tested and one of the 25 new hire pay transactions tested contained errors that resulted in total overpayments to two employees of $191 and one underpayment of $18. The errors occurred because the Division miscalculated the number of days worked when computing each employee’s partial pay.

Sound business policy requires management to establish and maintain effective internal controls to ensure that all pay calculations and salary/wage payments are accurate. In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State that is not due and for anyone employed by the State to pay salaries or monies to State employees that are not due.

Similar pay calculation errors have been reported in prior State Auditor’s Reports on the Division’s financial performance.

**Agent Clothing Allowance**

In accordance with Proviso 56DD.14 of the 2000 Appropriation Act, the Division provides a $600 clothing allowance at the beginning of each fiscal year to each of its agents. The Division’s policy 2.10 C. states that when agents begin or terminate employment after July first, the clothing allowance amount must be prorated on a quarterly basis for the remainder of the fiscal year to determine the amount to pay the new hire or recover from the departing agent. As a matter of practice, the agency makes a written request for reimbursement to each
of its terminating agents. Our test of 30 termination pay transactions included eleven agents each of whom received the full $600 clothing allowance for fiscal year 2000 but only five of whom reimbursed the Division for the prorated share despite the Division’s request for reimbursement. In total $1,346 should have been reimbursed by these employees to the Division.

Section 8-11-30 of the South Carolina Code of Laws prohibits the payment or receipt of salaries or monies that are not due.

**Distribution of Fringe Benefit Costs**

Annually, the Division distributes employer contribution expenditures to individual funds based on the pro rata share of employee salaries paid by each fund. For fiscal year 2000, however, the Division failed to make the appropriate distribution to its earmarked and restricted funds. Consequently, $26,356 of general fund appropriations was charged for fringe benefits for employees whose salaries are paid from the earmarked and restricted funds.

Proviso 63G.1. of the 1999-2000 Appropriation Act states, “It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen’s compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency’s employees.”
Recommendations

We again recommend that the Division implement procedures to ensure that payroll calculations are independently checked for clerical accuracy and information in those computations (e.g., days worked) is independently verified with supporting documentation. In addition, we recommend that SLED design and implement procedures to ensure that the accounting department recovers the prorated portions of the annual clothing allowances for agents who terminate employment during the fiscal year. Finally, we recommend that the Division implement procedures to ensure that fringe benefits are properly distributed by fund source.
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 Division's financial activities for the fiscal year ended June 30, 1999, and dated April 14, 2000. We determined that the Division has taken adequate corrective action on each of the findings except certain deficiencies regarding the preparation of closing packages and payrolls. The continuing deficiencies are described in Closing Packages and Payroll in Section A of the Accountant's Comments section of this report.
MANAGEMENT'S RESPONSE
AGENCY RESPONSE TO AUDIT FINDINGS
Fiscal Year Ended 1999-2000

Section A - Material Weaknesses and/or Violations of State Laws, Rules or Regulation

Closing Packages

1. Operating Leases - One lease agreement improperly classified as executory cost. Recommend the agency assign responsibility for the completion and review of the operating leases closing package to staff trained in lease accounting and thoroughly familiar with GAAP Manual guidance and instructions.

2. Miscellaneous Revenues - (a) Recommend the Division develop and implement policies regarding granting credit, the collection of receivables and write-offs of uncollectibles accounts, and the valuation of its estimated allowance for uncollectible balances. (b) Recommend the Division coordinates with the other agencies responsible for collecting DNA fees to obtain a list of qualifying offenders who owe the fine and the balances still owed in order to properly record accounts receivable and revenues in accordance with GAAP Manual instructions.

3. Compensated Absences - (a) Recommend the compensated absences closing package be completed and reviewed by staff thoroughly familiar with the GAAP manual and the agency date required to be reported on the closing package. (b) Recommend that the supporting work papers show the value of the compensated absences amounts owed at June 30, to personnel who terminated their State employment during June.

4. Capital Leases - (a) Recommend the Division implement procedures to ensure it prepares a lease register form and the capital lease summary form, if applicable, and submit to the State Treasurer's Office at inception of the lease agreement. (b) Recommend Division report necessary corrections in the 2000 accounting records to properly classify fiscal year 2001 capital lease payments. (c) Prepare and submit a capital lease summary form to State Treasurer's office.

Closing Packages Response

The Division is implementing procedures to correct auditing findings.

1. The operating lease agreement improperly classified has been corrected. Staff continue to stay abreast of procedures in lease accounting.

2. (a) Division has established procedures to estimate write-off uncollectibles.
   (b) The other participating agencies are given the responsibility of collecting DNA fees and submitting to SLED the revenues to fund the program. The Division has no way of knowing what is outstanding, unless the other agencies responsible tell the Division. I am doubtful that SLED can enforce the collection for these other agencies. The Division makes the assumption that the other agencies responsible for collecting fees are also reporting receivables. If SLED reports receivables too, receivables would be duplicated and overstated.

3. (a) The Division has trained staff to complete compensated absences closing package. The same staff completed prior year's closing package error free. The difference is the various challenges of relying on a newly converted leave system during audit year.
   (b) The Division converted to a new leave accounting system that did not provide detailed transactions of converted data. The HR Office was left to rely on a combination of manual and automated calculations from two different systems. The new system has the capability of calculating the value of the compensated absences amounts owed at June 30, of personnel who terminated their State employment during June.

4. (a) Procedures are in place to ensure a lease register form and capital lease summary form is prepared and submitted to the State Treasurer's Office at inception of the lease agreement.
   (b) Necessary corrections will be reported in the 2000 accounting records to properly classify fiscal year 2001 capital lease payments.
   (c) A capital lease summary form will be submitted to State Treasurer's office.
Payroll

1. Recommend that the Division implement procedures to ensure that payroll calculations are independently checked for clerical accuracy.

2. Recommend that SLED design and implement procedures to ensure that the accounting department recovers the prorated portions of the annual clothing allowances for agents who terminate employment during the fiscal year.

3. Recommend that the Division implement procedures to ensure that fringe benefits are properly distributed by fund source.

Payroll Response

1. Division has taken steps to correct audit finding mentioned above. In addition, the Division has established internal procedures, which have been implemented to avoid any similar findings.

2. Procedures have been developed and implemented; however, Federal laws prohibit garnishing of wages. Therefore, the agency feels it is in compliance of 1999-2000 procedures and requests assistance in finding an alternative to eliminate this exception.

3. Division has procedures in place to ensure proper distribution of fringe benefits by fund source. Audit finding was a merely an oversight in year-end closing.
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