Independent Accountant’s Report on Applying Agreed-Upon Procedures

July 3, 2018

Chief Mark Keel
South Carolina Law Enforcement Division
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Law Enforcement Division (the Division), on the systems, processes and behaviors related to financial activity of the Division for the fiscal year ended June 30, 2017. The Division’s management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Division. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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-Upon Procedures:

- Clerical errors of less than $1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than $1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the management of the Division and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Agreed-Upon Procedures Related to the South Carolina Law Enforcement Division (D10)

Cash Receipts/Revenues

1. Compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtained and documented an understanding of variations greater than or equal to $100,000 and 10% for the General Fund, $150,000 and 10% for the Earmarked Fund, and $700,000 and 10% for the Federal Fund.

2. Randomly selected twenty cash receipts transactions and inspected supporting documentation to:
   - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
   - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
   - Ensure that both revenue collections and amounts charged are properly authorized by law.

3. Randomly selected twenty cash receipts and inspected supporting documentation to determine that revenues are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compared current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtained and documented an understanding of variations greater than or equal to $350,000 and 10% for the General Fund, $450,000 and 10% for the Earmarked Fund, and $1,000,000 and 10% for the Federal Fund.

5. Randomly selected twenty non-payroll disbursements and inspected supporting documentation to determine:
   - Transaction is properly completed as required by Division procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
   - All supporting documents and approvals required by Division procedures are present and agree with the invoice.
   - The transaction is a bona fide expenditure of the Division, properly coded to the general ledger.
   - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
   - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures we inspected supporting documentation to determine:

   - Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
Cash Disbursements/Non-Payroll Expenditures

6. Randomly selected twenty non-payroll disbursements and inspected supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Procurement Cards

7. Obtained a listing of all authorized procurement card users in fiscal year 2017 and their credit limits. Additionally, we haphazardly selected fifteen procurement card transactions from the Comptroller General’s listing of purchasing card transactions for fiscal year 2017 in order to determine:

- The cardholder is an authorized user.
- The purchase is valid based on the cardholder’s job title/position.
- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The purchase did not exceed the single transaction limit or the individual credit card limit and there was no indication of transaction splitting.

Finding

Upon inspection of the Division’s procurement card documentation, we observed that for seven of the transactions, the corresponding monthly purchase summaries were not signed by either the cardholder or the supervisor. The failure to sign these statements is in violation of the South Carolina Purchasing Card Policy and Procedures as published by the Division of Procurement Services.

Management’s Response

Moving forward, we will make sure that all monthly procurement card statements will be signed by cardholder and supervisor.

Payroll

8. Compared current year payroll expenditures at the subfund and account level to those of the prior year. Obtained an understanding of variations greater than or equal to $350,000 and 10% for the General Fund, $450,000 and 10% for the Earmarked Fund, and $1,000,000 and 10% for the Federal Fund.

9. Randomly selected twenty employees and inspected supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee’s payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Division.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee’s payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Division.
- Confirm the hourly rate and time sheets are properly approved; confirm the accuracy of gross pay.
Payroll (Continued)

10. Haphazardly selected five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Division’s policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

11. Haphazardly selected thirteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Division’s policies and procedures, that the employee’s last pay check was properly calculated and that the employee’s leave payout was properly calculated in accordance with applicable State law.

12. Compared the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtained an explanation of changes greater than 10%.

13. Computed the percentage distribution of fringe benefit expenditures by fund source and compared to the actual distribution of recorded personal service expenditures by fund source. Obtained an explanation of variations greater than 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

14. Randomly selected sixteen journal entries and four transfers for the fiscal year to:
   • Trace postings to the general ledger, confirming amounts agree with supporting documentation.
   • Confirm transaction is properly approved.
   • Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Payroll Journal Entries

15. Haphazardly selected five payroll journal entries for the fiscal year to:
   • Trace postings to the general ledger, confirming amounts agree with supporting documentation.
   • Confirm transaction is properly approved.
   • Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspected the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.

17. Confirmed compliance with the selected agreed-upon Division-specific State provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.
Reporting Packages

18. Obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspected the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG’s Reporting Policies and Procedures Manual.

19. In addition to the procedure above, we performed the following:

- **Cash and Investments Reporting Package**
  
  Determined if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Division prepared records. In addition, determined if amounts agree to State Treasurer’s Office Composite Bank Account reports and year end reconciliations.

- **Capital Assets Reporting Package**
  
  Determined if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Division prepared records.

  Haphazardly selected five capital asset acquisitions and three low value asset acquisitions, and determined the following:
  
  - Fixed asset was properly posted to general ledger as to amount and account.
  - Inspected documentation to determine that the asset was properly capitalized
    
    *(applicable solely to capital assets).*
  - Asset assigned useful life value in accordance with Exhibit 3.8 (B) of CG’s
    
    Reporting Policies and Procedures Manual *(applicable solely to capital assets).*

  Haphazardly selected five asset retirements to determine that the capital asset had been fully depreciated over an appropriate estimated useful life for depreciation and that the amounts calculated for depreciation and accumulated depreciation were correct for the selected asset.

- **Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package**
  
  Determined if responses and commitment amounts are reasonable/accurate based on inspection of invoices and/or contractual agreements.

- **Subsequent Events Questionnaire**
  
  Determined if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Division prepared records.

We found no exceptions as a result of the procedures.
Composite Reservoir Accounts

20. Obtained a listing of Division composite reservoir accounts and confirmed with management that the listing is complete.

21. Obtained fiscal year monthly reconciliations for each composite reservoir account and for four of the reconciliations (two from each account) performed the following procedures:
   - Determined the selected reconciliations were timely performed and properly documented in accordance with applicable State regulations, and are mathematically correct.
   - Agreed applicable amounts from reconciliations to the general ledger.
   - Agreed applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
   - Determined if reconciling differences were adequately explained and properly resolved.
   - Determined if necessary adjusting entries were made in the accounting records.
   - Obtained a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
   - Agreed the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.

22. Haphazardly selected and inspected four composite reservoir account receipts for one account and fifteen composite reservoir account receipts for another account, to determine that they were properly described and classified in the accounting records in accordance with the Division’s policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

23. Haphazardly selected and inspected four composite reservoir account disbursements for one account and fifteen composite reservoir account disbursements for another 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Finding

Upon inspection of the Division’s Composite Reservoir Accounts, we were unable to observe if each of the selected months’ reconciliations were reconciled in a timely manner. These reconciliations were not dated based on our inspections.

Management’s Response

We will ensure that the monthly reconciliation of the HIDTA report is not only signed but also dated to show the reconciliation being done in a timely manner.

Memorandum of Understanding with Other State Agencies

24. Obtained and inspected the Memorandum of Understanding between SLED and other State agencies to ensure the memos are present and document the services being provided.

We found no exceptions as a result of the procedures.
Supply / Small Purchase Items Inventory

25. Obtained the policies and procedures regarding supply inventory and inquired of management to identify any areas of weakness or noncompliance.

   We found no exceptions as a result of the procedures.

Random Checks of Cash

26. Haphazardly selected ten random checks of cash related to undercover operations to determine that undercover agents are held accountable for the cash in their possession.

   We found no exceptions as a result of the procedures.

Status of Prior Finding

27. Through inquiry and inspection, determined if the Division has taken appropriate corrective action on the finding reported during the engagement for the prior fiscal year.

   We found no exceptions as a result of the procedures.