South Carolina Law Enforcement Division

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2007

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State of South Carolina

Office of the State Auditor

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June 11, 2008

The Honorable Mark Sanford, Governor
and
Chief Reginald I. Lloyd
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, 2007, was issued by Scott McElveen, 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,

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

RHGjr/trb

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SCOTT McELVEEN LLP

Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., 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 (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2007, in the areas addressed. The Agency'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 25 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 10 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 remittances were supported by law.

- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked 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 ($71,000 – earmarked fund and $110,000 – Federal fund) and +/- 10 percent.

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- We made inquiries of management pertaining to the Agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Agency personnel performing their 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 25 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 Agency, were paid in conformity with State laws and regulations, and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.

- We inspected 10 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 in various STARS reports to determine if recorded expenditures were in agreement.

- 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 that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels ($140,000 – general fund, $71,000 – earmarked fund, and $110,000 – federal fund) and +/- 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 25 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; payroll transactions, including employee payroll deductions, 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 2 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.

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- We inspected payroll transactions for 5 selected new employees and 5 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 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.

- 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 Agency's accounting records. The scope was based on agreed-upon materiality levels ($140,000 – general fund, $71,000 – earmarked fund, and $110,000 – federal fund) and +/- 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 +/- 5 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

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

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

- We inspected 5 selected recorded journal entries, 5 operating transfers, and 5 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.

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5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency 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 Agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained monthly reconciliations prepared by the Agency for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency's accounting records and/or in STARS.

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

7. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and Agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of closing packages as of and for the year ended June 30, 2007, prepared by the Agency 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 in the Accountant's Comments Section of this report.

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9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Agency 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 the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the Accountant's Comments section of our report on the Agency resulting from the engagement for the fiscal year ended June 30, 2006, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B in the Accountant's Comments section of this report.

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, management, 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.

Scott McElveen, L.L.P.

Columbia, South Carolina
May 29, 2008

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ACCOUNTANTS' COMMENTS

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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.

Closing Packages – DNA Fees 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 State Law Enforcement Division ("SLED") for inclusion in the State's DNA Database and to pay a $250 processing fee. The law authorizes SLED 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 (DC), the Department of Juvenile Justice (DJJ), and the Department of Probation, Parole, and Pardon Services (DPPPS).

Beginning in fiscal year 1999, DC began to provide samples to SLED for testing and collecting amounts from inmates for the processing fee, and DJJ and DPPPS began to do the same in fiscal year 2002. SLED has recorded revenues related to these samples based on the cash they have received rather than the amount of samples processed. SLED has not recorded the receivables related to the DNA fees. Consequently, SLED did not report these receivables on its miscellaneous receivables closing packages. As a result, the related revenues, accounts receivables, and allowance for uncollectibles were understated on the State's financial statements. We were not able to determine the amount of the understatements. A similar finding was reported in the fiscal year 2000-2001 engagement dated April 12, 2002, in the fiscal year 2001-2002 engagement dated June 12, 2003, in the fiscal year 2003-2004 engagement dated April 15, 2005, in the fiscal year 2004-2005 engagement dated June 9, 2006, and in the fiscal year 2005-2006 engagement dated June 12, 2007.

We recommend that the Agency coordinate with the agencies responsible for submitting the DNA samples and collecting the fees 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 uncollectibles in accordance with GAAP Manual Instructions, and so this asset may be properly tracked, monitored, controlled, and collected.

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SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountants' Comments Section of the Independent Accountants' Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2006, and dated June 12, 2007. The following is the status of each prior year finding:

Prior Year Finding	***Status***
Incorrect Revenue Object Code	Corrective action taken
Incorrect Expenditure Object Code	Corrective action taken
Closing Packages – DNA Fees Revenue	Similar finding in section A of current year report

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SOUTH CAROLINA LAW ENFORCEMENT DIVISION

MARK SANFORD
Governor

REGINALD I. LLOYD
Director

June 23, 2008

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29211

Dear Mr. Gilbert:

Reference is made to the preliminary draft of the audit for the fiscal year ended June 30, 2007.

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 exhibited by the professionals on your staff. With best regard, I remain

Yours truly,

Reginald I. Lloyd, Director
South Carolina Law Enforcement Division

RIL/lr

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AGENCY RESPONSE TO AUDIT FINDING
Fiscal Year Ended 2006-2007

Closing Packages – DNA Fees Revenues – Prior year Finding

We recommend that the Agency coordinate with the agencies responsible for submitting the DNA samples and collecting the fees to obtain a list of the qualifying offenders who owe the fee and the balance still owed in order to properly record accounts receivables, revenues, deferred revenues, and the related allowance for uncollectible in accordance with GAAP Manual Instructions, so this asset may be properly tracked, monitored, controlled and collected.

Response – Closing Packages – DNA Fees Revenues

The Division will continue to make efforts to meet recommended action. Agency has contacted South Carolina Department of Corrections (SCDOC , Department of Juvenile Justice (DJJ) and Probation Pardon and Parole (PPP). Agencies were not able to provide a list of unpaid balances of offenders. PPP did provide the amount of funds collected as of a certain date. SLED continues to record revenue based on the cash received. Under the circumstances, as discussed, I recommend that the language is modified in the law to allow SLED to be exempted from this reporting requirement.

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