

**SOUTH CAROLINA
ATTORNEY GENERAL'S OFFICE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2011

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 9, 2012

The Honorable Alan Wilson, Attorney General
South Carolina Attorney General's Office
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Attorney General's Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2011, in the areas addressed. The Office'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 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 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 (\$127,500 – general fund, \$52,000 – earmarked fund, and \$21,500 – federal fund) and ± 10 percent.

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 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 Office 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 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 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 (\$31,200 – general fund, \$65,000 – earmarked fund, and \$20,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Travel Documentation in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected 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 payroll transactions for selected new employees and those 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 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 (\$31,200 – general fund, \$65,000 – earmarked fund, and \$20,900 – 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 ± 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 selected recorded journal entries, operating transfers, and 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. Our finding as a result of these procedures is presented in Transaction Approval in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Cash Receipts and Revenues

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

Reconciliations

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2011, and inspected selected reconciliations of balances in the Office'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 Office'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 Office's accounting records.

Our finding as a result of these procedures is presented in Reconciliations of Composite Reservoir Accounts in the Accountant's Comments section of this report.

6. **Appropriation Act**

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

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, 2011, prepared by the Office 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 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, 2011, prepared by the Office 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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 Office resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the years ended June 30, 2010 and 2009.

Our findings as a result of these procedures are presented in Reconciliations of Composite Reservoir Accounts and Reporting Packages 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.

The Honorable Alan Wilson, Attorney General
South Carolina Attorney General's Office
October 9, 2012

This report is intended solely for the information and use of the management of the South Carolina Attorney General's Office and is not intended to be and should not be used by anyone other than these specified parties.

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

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.

RECONCILIATIONS OF COMPOSITE RESERVIOR ACCOUNTS

The accountant's comment titled Reconciliations of Composite Reservoir Accounts reported in the State Auditor's Report on the Office for the fiscal year ended June 30, 2008, identified several exceptions related to the monthly bank reconciliations of several of the state grand jury composite reservoir accounts. Our review of the composite reservoir account reconciliations disclosed that the State Grand Jury Clerk of Court did not properly document the performance of the state grand jury bond account, filing fee account, and the juror expenses account reconciliations while under the Attorney General's Office supervision. Although documentation for both the bank and book activity was maintained, details reconciling the bank balance to the book balance was not available for most months for these accounts.

The Comptroller General's Office Reporting Policies and Procedures Manual explains state agency responsibility of reconciling composite reservoir accounts. In order to timely detect and correct errors, effective internal controls include monthly bank reconciliations that are independently approved and adequately document the reconciling details.

We recommend the State Grand Jury Clerk of Court, under the Attorney General's Office supervision, develop and implement monthly reconciliation procedures for all state grand jury composite reservoir accounts. Reconciling items between the bank balance, the checkbook balance and accounting system should be included in the reconciliation.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "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." Our testing of the Office's reporting packages disclosed the following exceptions:

Cash and Investments Reporting Package

For two of the six office bank accounts, the Office reported the year end book balance instead of the bank balance.

Capital Assets Reporting Package

The accountant's comment titled Capital Assets Closing Package reported in the State Auditor's Report on the Office for the fiscal year ended June 30, 2008, identified an intangible asset misclassified as machinery and equipment. Our review revealed that the Office misclassified the asset balance for intangible assets as works of art & historical treasures on the capital assets reporting package for the year ended June 30, 2011. Based on our review this misclassification was the result of oversight by Office personnel during preparation and review of the reporting package. In addition, our test of fiscal year 2011 asset additions revealed that an asset was not being depreciated in accordance with its assigned useful life due to the manner in which it was being accounted for by SCEIS.

We recommend that the Office develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and forms instructions. We recommend that the

Office review its assets depreciation schedule to ensure the accuracy of depreciation. Furthermore, we recommend that the Office make appropriate adjustments to future reporting packages, as necessary, to correct the errors identified above.

TRAVEL DOCUMENTATION

One of twenty-five non-payroll disbursements randomly selected for testing documented the payment to an employee for mileage reimbursement. The travel voucher documented that the mileage claimed by the employee was approximately one hundred miles greater than the map miles. The Office explained the travel voucher included vicinity mileage that was incurred during the trip. However, the vicinity mileage was not separately reported on the travel voucher.

The Comptroller General's Office travel regulations require that substantial deviations from map mileage be explained. The regulations also explain that a separate entry should be made for travel in the vicinity of a community or city.

We recommend that the Office revise its travel policy to require its employees to document vicinity mileage in accordance with Comptroller General's Office travel regulations.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The State Auditor's Office letter of instruction for the schedule of federal financial assistance (SFFA) serves as guidance for agencies to complete the SFFA and requires accuracy of identification of grants by catalog of domestic assistance (CFDA) and grant number and program and grant title. Each grant within a program is to be reported separately on the SFFA.

Our testing of the Office's SFFA disclosed that the Office reported an inaccurate CFDA and program title for two grants associated with one program and an inaccurate grant number for another grant. Additionally, it was noted that the grant activity for two grants of one federal program had been combined into one line item on the SFFA.

The exceptions noted above were identified and corrected by the auditors during statewide single audit procedures and the Office has demonstrated corrective action is being implemented to prevent future reporting errors.

We recommend the Office continue its implementation of corrective action associated with this comment and carefully follow the State Auditor's Office letter of instructions for completion of the SFFA. Accuracy of reported information has direct impact on the accuracy of the statewide single audit report.

TRANSACTION APPROVAL

Our test of Office journal entries processed in fiscal year 2011 revealed that the Office had processed accounting transactions without adequate separation of duties. The documentation associated with five of twenty-five journal entries randomly selected for testing disclosed that the entry was prepared and approved by the same individual. Workflow in the accounting system did not require the transactions to be initiated and approved by different employees. The Office could not provide other documentation to demonstrate an independent review.

Effective internal controls require an independent review and approval of all transactions processed in the accounting system.

We recommend that the Office develop and implement procedures to ensure that all transactions processed by the accounting system document a separation of duties through workflow or other supporting documentation.

SECTION C - 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 Office for the fiscal year ended June 30, 2008, and dated February 26, 2009. We applied no procedures to the Office's accounting records and internal controls for the years ended June 30, 2010 and 2009. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated Reconciliations of Composite Reservoir Accounts and we have repeated Capital Assets Closing Package in the comment titled Reporting Packages.

MANAGEMENT'S RESPONSE



ALAN WILSON
ATTORNEY GENERAL

November 27, 2012

Office of the State Auditor
Mr. Richard H. Gilbert, Jr., CPA
Post Office Box 11549
Columbia, SC 29211

Dear Mr. Gilbert:

The Office of the Attorney General has reviewed the Accountant's Comments stemming from the FY2011 audit. Attached you will find a response for the conditions noted.

We are pleased with the outcome of the audit and thank you for your service to the Office of the Attorney General and the State of South Carolina. We look forward to working with your office in the future. If we can be of assistance please do not hesitate to contact us.

Sincerely,

Thomas M. Osmer, Jr.
Director of Finance

Reconciliations of Composite Reservoir Accounts

The Clerk of Court's Office will revise current accounting procedures to ensure that each of the five accounts are properly prepared and independently reviewed on a monthly basis. Steps are in place to make certain all reported amounts on the closing packages contain correct and complete information in accordance with the Comptroller General's GAAP Closing Procedures Manual.

Reporting Packages

The SCOAG will develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and forms instructions.

The SCOAG will review the asset depreciation schedules to ensure the accuracy of the depreciation. We will make appropriate adjustments to our packages to correct any identified errors.

Travel Documentation

The SCOAG will revise office travel policy and notify employees to document vicinity mileage in accordance with Comptroller General travel regulations.

Schedule of Federal Financial Assistance

The SCOAG has updated and revised the CFDA codes and titles in SCEIS for the grants we maintain.

Transaction Approval

The SCOAG will review the current accounting workflow controls with the SCEIS analysts and the Comptroller General.

4 copies of this document were published at an estimated printing cost of \$1.61 each, and a total printing cost of \$6.44. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.