

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

STATE AUDITOR'S REPORT

JUNE 30, 2014

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 3, 2015

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, 2014, 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 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 thirteen 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 (\$316,100 – general fund, \$40,600 – earmarked fund, \$0 – restricted fund, and \$15,800 – federal fund) and ± 10 percent.
- 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 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 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 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 (\$40,700 – general fund, \$82,700 – earmarked fund, and \$16,100 – federal fund) and ± 10 percent.

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

3. Payroll Disbursements and Expenditures

- We inspected twenty-five 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 ten selected new employees and ten 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 (\$40,700 – general fund, \$82,700 – earmarked fund, and \$16,100 – 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 Interagency/Cash Appropriation Transfers**

- We inspected nine selected recorded journal entries, six operating transfers between funds, and five interagency appropriation/cash 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 Supporting Documentation in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2014, 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.

Cash Receipts and Revenues

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

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 Office'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 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 findings as a result of these procedures are 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, 2014, 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.

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 Office resulting from our engagement for the fiscal year ended June 30, 2013, to determine if Agency had taken corrective action.

We found no exceptions as a result of the procedures.

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 Office 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 \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- 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 more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

The Honorable Alan Wilson, Attorney General
South Carolina Attorney General's Office
December 3, 2015

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 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.



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.

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:

Other Payroll Liabilities Reporting Package

During our review of the Other Payroll Liabilities Reporting Package, we noted the leave liability for five employees reported on the compensated absences report was incorrect. Therefore, on Form 3.17.1 Compensated Absences Summary, the Office should have answered 'No' to Part I question 1 for Funds 10010000 and 30350007 and then reported the variances in Part 2.

Accounts Payable Reporting Package

During our review of the Accounts Payable Reporting Package, we noted the Office reported \$41,659 of prior year payables on Form 3.12.1 (AP Reconciliation Form). The supporting documentation extracted from SCEIS reported \$42,491 of prior year payables. We determined the Office did not report a payable of \$832 in fund 30350007.

Recommendation

We recommend the Office strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

ACCOUNTING FOR SOFTWARE COSTS

We noted significant variances during our analytical review of expenditure accounts for general ledger account numbers 5020070002 (data processing services – software maintenance) and 5020070005 (data processing services – consulting). Agency personnel stated the Office had incurred costs in fiscal year 2014 for the development and installation of its Worldox management system. We noted the actual cost of the software was appropriately capitalized by the agency; however other costs associated with the asset were not capitalized.

Section __.8 of the Comptroller General's Office Reporting Policies and Procedures Manual specifies requirements for capitalizing software expenditures developed by third party contractors. The procedures manual states that costs incurred during the application and development stage of the project (e.g., design, coding, installation, and testing) should be capitalized and that agencies should capitalize a software module if its cost exceeds the \$100,000 capitalization threshold.

We recommend the Office review the costs incurred for these modules and determine what costs, if any, should be capitalized. Based on this analysis the Office should adjust future reporting packages.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

SUPPORTING DOCUMENTATION

For one out of nine journal entries tested, the Office could not provide documentation to adequately support or explain the journal entry. According to personnel, this journal entry and accompanying supporting documentation had been deleted after several discussions with SCEIS regarding how to report the receipt of monies from multistate litigations. The Office was unable to provide a hard copy of the support.

Sound business practices require management to establish and maintain effective internal controls to ensure that all journal entries, transfers, revenues and expenditures postings are supported by source documents. We recommend the Office strengthen its controls to ensure that all accounting transactions processed through its accounting system be supported by source 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 South Carolina Attorney General's Office for the fiscal year ended June 30, 2013, and dated June 16, 2014. We determined that the Office has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Non-Payroll Disbursements and Expenditures

Accounting for Software Cost

The Office of Attorney General has reviewed the comptroller policy and procedures to ensure future asset acquisitions are appropriately recorded. The Agency will review the software purchase sited in the audit and make necessary corrections to ensure all related expenses are capitalized according to the comptroller policy and procedures.

Journal Entries, Operating Transfers and Interagency/Cash Appropriation Transfers

Supporting Documentation

The Office of Attorney General will ensure all supporting documentation will be retained and proper procedures are followed for all financial transactions.

Reporting Packages

The Office of the Attorney General has reviewed Section 1.7 and documented the errors for future fiscal year reporting packages. The proper personnel will thoroughly review the packages for accuracy prior to submission.

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