

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2015**

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**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

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**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

July 22, 2016

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, 2015, 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 twelve 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 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 (\$143,500 – general fund, \$88,000 – earmarked fund, and \$17,300 – federal fund) and  $\pm 10$  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 twenty-five selected recorded non-payroll disbursements and five selected purchase card 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 (\$43,700 – general fund, \$76,700 – earmarked fund, and \$18,500 federal fund) and  $\pm 10$  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 thirty 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 nine selected new employees and eight 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 (\$43,700 – general fund, \$76,700 – earmarked fund, and \$18,500 federal fund) and  $\pm 10$  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  $\pm 10$  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 fifteen selected recorded journal entries, five operating transfers, and five 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.

5. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2015, and inspected all 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 fifteen 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 the same 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 thirty-six 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 the same selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The transactions selected were chosen randomly and haphazardly. Our finding as a result of these procedures is presented in 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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

Our finding as a result of these procedures is presented in Publication Cost Disclosure in the Accountant's Comments section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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, 2015, 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 Agency resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Office had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

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 ten 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 ten percent or more of the accounting transactions tested 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.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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**

### **Condition:**

Our testing of the Office's fiscal year ended June 30, 2015 reporting packages resulted in the following exceptions:

1. Grant receivable and deferred revenue reported on the Grants Activity Form of the Grants and Contributions Revenue Reporting Package was overstated.
2. Our testing of the Capital Assets Reporting Package identified two software acquisitions capitalized as Intangible Assets – Non-depreciable which did not meet the minimum dollar value threshold for capitalization.
3. Accounts payable was understated, and the payroll and compensated absences liabilities were overstated due to omissions or reporting discrepancies on the Subsequent Events Questionnaire.

### **Cause:**

1. An adjusting journal entry made during the year to certain grants in the accounting system created activity, and subsequently balances on the reporting package which did not represent a receivable or deferred revenue.
2. Interpretation of Comptroller General's Office guidance led to capitalization of items which did not meet the minimum dollar threshold to capitalize.
3. Accounts payable and employee leave submissions that had occurred subsequent to the filing if the original reporting packages were inadvertently not identified and reported. Additionally a payroll amount due to a terminated employee was reported in error due to interpretation of the Comptroller General's Office guidance.

### **Effect:**

1. Grants receivable and deferred revenue were both overstated by \$2,635 as a result of the error.
2. Non-depreciable assets on the asset history report and submitted through the reporting process were overstated by approximately \$7,600 as a result of the acquisitions tested.
3. Accounts payable was understated by approximately \$28,000 and payroll liabilities were overstated by approximately \$4,700. Five of nineteen randomly selected individuals had leave submissions subsequent to the compensated absences report date, an impact of approximately \$2,500.

### **Criteria:**

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."

**Recommendation:**

We recommend the Office implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures Manual and form instructions. We also recommend the Office review all its capitalized intangible assets for accuracy and reclassification as necessary.

**Management's Response:**

The Attorney General's Office has reviewed section 1.7 and documented the errors for future fiscal year reporting packages. The agency has worked with SCEIS to clear any grant reporting errors which caused a misstatement in the reporting package for FY15. Furthermore, the agency has thoroughly reviewed and amended all assets which were improperly recorded. The agency will assure thorough inspection of all closing packages by management prior to submission.

## **PUBLICATION COST DISCLOSURE**

### **Condition:**

Required cost disclosures were missing from a bound publication of the Office, noted during our review of Appropriation Act compliance.

### **Cause:**

The specific reason for the inadvertent omission of cost information was not determined as part of our procedures.

### **Effect:**

The Office was not in compliance Section 1-11-425 of the South Carolina Code of Laws.

### **Criteria:**

Section 1-11-425 of the South Carolina Code of Laws states, "All agencies using appropriated funds shall print on the last page of all bound publications the following information: (1) total printing cost; (2) total number of documents printed; and (3) cost per unit."

### **Recommendation:**

We recommend the Office implement procedures to ensure compliance with Section 1-11-425 for any applicable publications produced externally or by the Office.

### **Management's Response:**

The Attorney General's Office has reviewed section 1-11-425 and will assure all future publication include the proper disclosures.

## **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.

## **COMPOSITE RESERVOIR ACCOUNTS**

### **Condition:**

Monthly bank reconciliation supporting documentation for several Office composite reservoir accounts was not adequate to explain differences between the bank and book balance. Additionally, the Office reported the bank balance as the reconciled balance on the Deposits with Banks Reporting Form of the Cash and Investments Reporting Package.

### **Cause:**

Interpretation of Comptroller General's Office guidance and inadequate supporting documentation were the contributing factors of the composite reservoir account exceptions.

### **Effect:**

Adequately supported bank reconciliations are necessary for the timely detection and correction of errors. Unexplained differences between reconciled and recorded balances on the reporting package increases the probability of discrepancies in statewide financial reporting.

### **Criteria:**

The Comptroller General's Office Reporting Policies and Procedures requires adequate controls over composite reservoir accounts and the Deposits with Banks Reconciliation Form requires written explanations for differences in recorded and reconciled balances. Adequate bank reconciliations document all reconciling items.

### **Recommendation:**

We recommend the Office develop and implement monthly bank reconciliation procedures which provide adequate support of all reconciling items and thereby support differences between reconciled and recorded balances, if any, reported on the Deposits with Banks Reporting Form.

### **Management's Response:**

The Clerk of Court's Office will closely monitor the finance procedures to ensure all reporting and reconciliations of the Composite Reservoir Accounts meet the guidelines of the Comptroller General's Office Reporting Policies and Procedures. Management will carefully review all reporting packages for accuracy prior to submission.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

### **Condition:**

Several discrepancies were noted during our review of the Office's 2015 Schedule of Federal Financial Assistance (SFFA) including omission of the identity of a pass through entity providing funds to the Office for one grant and understatement of expenditures for two other grants.

### **Cause:**

Based on our review, inadvertent oversight led to the omission of the identification of the pass through entity and the manner in which a report from the accounting system accumulates information contributed to the expenditure understatements.

### **Effect:**

SFFA expenditures were understated by approximately \$85,000.

### **Criteria:**

The State Auditor's Office letter of instruction serves as guidance for agencies to complete the SFFA, including guidance to help prevent the issues described above.

### **Recommendation:**

We recommend the Office strengthen procedures to ensure that the SFFA is completed in accordance with the State Auditor's Office letter of instructions.

### **Management's Response:**

The Attorney General's Office has reviewed the State Auditor's Office instructions on completing the SFFA report. The agency will ensure all grants are thoroughly reviewed and all transactions are properly recorded in future reports.

## **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, 2014, and dated December 3, 2015. We determined that the Office has taken corrective action over each of the findings except we have repeated Reporting Packages with conditions containing some relationship to findings in prior year.

4 copies of this document were published at an estimated printing cost of \$1.47 each, and a total printing cost of \$5.88. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.