

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

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNTS	6
REPORTING PACKAGES	7
EQUIPMENT PURCHASES AND PAYMENTS	8
SECTION B - OTHER WEAKNESS	9
TRANSACTION APPROVAL	10
SECTION C - STATUS OF PRIOR FINDINGS	11
MANAGEMENT'S RESPONSE	12

State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 16, 2014

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, 2013, 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 general ledger 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 (\$222,200 – general fund, \$144,900 – earmarked fund, and \$18,000 – 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 general ledger account 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 (\$52,000 – general fund, \$85,000 – earmarked fund, and \$17,800 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Equipment Purchases and Payments 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 general ledger account 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 (\$52,000 – general fund, \$85,000 – earmarked fund, and \$17,800 – 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, 2013, 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, 2013, 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 and Equipment Purchases and Payments 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, 2013, 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, 2011, to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2012.

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



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, 2011, identified several exceptions related to adequately documenting monthly bank reconciliations of several of the state grand jury composite reservoir accounts. Our review of the fiscal year 2013 composite reservoir account reconciliations revealed that several account reconciliations did not document, in sufficient detail, reconciling differences between the bank balance and the SCEIS book balance.

The Comptroller General's Office Reporting Policies and Procedures Manual provides guidance to state agencies with respect to reconciling composite reservoir accounts. The Manual explains that an agency's internal controls should include monthly bank reconciliations that are independently approved and that adequately explain reconciling differences in order to timely detect and correct errors.

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. Differences identified during the monthly reconciliations should be explained in sufficient detail to document the nature of the difference and any action required to resolve the differences (e.g. – journal entry, etc.).

REPORTING PACKAGES

The accountant's comment titled Reporting Packages reported in the State Auditor's Report on the Office for the fiscal year ended June 30, 2011 reported several exceptions associated with the completion of year end reporting packages.

Section 1.7 of the Comptroller General's Office 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 fiscal year 2013 reporting packages revealed that the Office inaccurately reported on the Master Reporting Checklist, form 2.0.1, that it did not record any lease payments under lease agreements during the fiscal year. Had that part of the Master Reporting Checklist been answered correctly, the Office would have been required to submit an Operating Lease Reporting Package. Misinterpretation of the question context on the Master Reporting Checklist along with oversight contributed to this error.

We recommend that the Office implement procedures to ensure that the Comptroller General's Master Reporting Checklist instructions are followed to ensure accurate financial reporting. If it is determined that certain reporting packages do not apply to the Office, then it should maintain supporting documentation to explain why the reporting package was not applicable.

EQUIPMENT PURCHASES AND PAYMENTS

We selected eight fiscal year 2013 equipment purchases for testing and noted the following:

- Two equipment purchases which qualified as “low value assets” (SCEIS Account 1801099000) were recorded as “depreciable equipment” (SCEIS Account 1801016000).
- One equipment purchase was not paid timely in accordance with state law. The Office received the vendor invoice in early April, but did not pay the vendor until early July.

In addition, while performing other procedures, we noted that the Office recorded a payment to State Fleet Management incorrectly. The Office posted a transaction to “office supplies” (SCEIS Account 5030010000) instead of “expense of future use of vehicle” (SCEIS Account 5051540000).

The errors were not detected during the review/approval process. The Office indicated that some errors occurred because staff had misinterpreted Comptroller General’s Office guidance and other errors (untimely payment) occurred because of discrepancies between the purchase order and the invoice.

The Comptroller General’s Office Reporting Policies and Procedures Manual provides guidance for the determination of low value assets. In addition, the Comptroller General’s Office Policies and Procedures include specific definitions to assist agencies with proper account coding. Finally, Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires agencies to pay for goods and services within 30 workdays of proper receipt.

We recommend that the Office strengthen its procedures over the recording and payment of assets and equipment.

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.

TRANSACTION APPROVAL

The accountant's comment titled Transaction Approval reported in the State Auditor's Report on the Office for the fiscal year ended June 30, 2011 documented that the Office had processed journal entry transactions without adequate separation of duties.

Our test of Office journal entries processed in fiscal year 2013 revealed that two of the twenty-five journal entries selected for testing were processed without adequate separation of duties. The supporting documentation and workflow approval associated with the two transactions documented that the transactions were prepared and approved by the same individual. The Office explained that the internal controls were not followed because it was under time constraints to process the transactions and qualified staff was not available.

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

We recommend that the Office continue to develop and implement procedures to ensure that all transactions processed by the accounting system document a separation of duties, either 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, 2011, and dated October 9, 2012. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2012. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated Reconciliations of Composite Reservoir Accounts, Reporting Packages, and Transaction Approval.

MANAGEMENT'S RESPONSE



ALAN WILSON
ATTORNEY GENERAL

July 7, 2014

Mr. Rich Gilbert
State Auditor's Office
1401 Main Street, Suite 1200
Columbia, SC 29210

Dear Mr. Gilbert:

The Office of the Attorney General has reviewed the preliminary 2013 Audit Report and authorizes the release of this report. Below you will find the response to each of the comments found in your audit report.

Please contact me at 734-3771 if you wish to discuss this matter further. Thank you for your assistance.

Sincerely,

Thomas M. Osmer, Jr.
Director of Finance
Office of the Attorney General

RECONCILIATIONS OF COMPOSITE RESERVIOR ACCOUNTS

The Office of the Attorney General has initiated a monthly review plan for each Composite Reservoir account. We have developed a schedule that will allow for timely review and correction of any differences identified during the monthly reconciliation. These differences will be explained in sufficient detail and documentation recorded as to actions taken to resolve the differences.

REPORTING PACKAGES

The Office of the Attorney General has reviewed Section 1.7 and documented the error for future fiscal year reporting packages.

EQUIPMENT PURCHASES AND PAYMENTS

Staff has reviewed and is aware of Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, and will be diligent in the recording and payment of the office's assets and equipment. The two equipment purchases are being moved to "low value assets" to be recorded correctly.

TRANSACTION APPROVAL

The Office of the Attorney General has implemented a policy that will require a signature or email by a separate executive manager approving Journal Entry transactions that are initiated and approved by the same individual in the accounting department should the default procedure not be available due to employee absenteeism.

4 copies of this document were published at an estimated printing cost of \$1.55 each, and a total printing cost of \$6.20. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.