

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

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 9, 2000

The Honorable Charles M. Condon
State 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 solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Office and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Temporary Grant Positions in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and operating transfers and tested all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual journal entry and operating transfer transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Office 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable Charles M. Condon
State Attorney General
South Carolina Attorney General's Office
March 9, 2000

6. We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 1999, and tested selected reconciliations of balances in the Office's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Office'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 Office's accounting records and/or in STARS. We judgmentally decided to select all fiscal year-end reconciliations for testing. We found no exceptions as a result of the procedures.
7. We tested the Office's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Office and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Office and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Office's financial statements or any part thereof, 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 Attorney General and 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.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

TEMPORARY GRANT POSITIONS

As part of plea agreements reached with the South Carolina Attorney General's Office in December 1997, two attorneys who were charged with the unlawful practice of law agreed to fund positions for both a prosecutor and an assistant to work in the Office. The agency established these positions as temporary grant positions under object code 0165. The total amount of the fines was \$350,000, \$250,000 for one attorney and \$100,000 for the other, to be paid over a three-year period. The funds are held in escrow by the defendants' attorneys to make payments to the Office when it bills them for reimbursements. The Office filled both positions in FY1998. The agency did not submit reimbursement requests for applicable FY1999 fourth-quarter salaries and employer contributions disbursements totaling \$18,273 and \$2,958. These expenditures were charged to State General fund appropriations. The remaining FY1999 expenditures were recorded in the correct earmarked subfunds. Proviso 72.27.A. of the 1999 Appropriation Act regarding temporary grant-funded or time-limited funded positions states, "Only those funds authorized within the approved ... grant, or time limited funds for a specified project can be used to pay the salaries and/or benefits of temporary employees hired under this provision." Furthermore, Proviso 63G.1. requires, "any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs" of cash fringe benefits. In addition, Section 11-9-125 of the 1976 South Carolina Code of Laws, as amended, states, in part, "Federal or other funds generated by the expenditures of state funds, including refunds from prior year expenditures, must be remitted to the general fund of the State ... In order to permit identification of these funds, state agencies shall:

1. draw down and expend federal and other funds before spending state general fund appropriations whenever possible;
2. maintain separate accounting records for each grant for cash, revenues, and expenditures ... "

We recommend the Office design and implement policies and procedures to ensure it charges personal services and employer contributions expenditures to the correct subfunds; timely requests expenditure reimbursements if it is unable to draw monies in advance from the funding sources; and properly records revenue collections from the escrow agents. Lastly we recommend that the agency request reimbursements for previously unbilled payroll and fringe benefit expenditures incurred for these two positions in FY1999 and FY2000 and remit collections applicable to expenditures charged to the Office's state appropriations to the State General Fund. Revenues derived from grant or contract sources should be used to finance the operations of those programs and related expenditures should be recorded in the applicable earmarked subfunds.

SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in our comment in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

COMPENSATED ABSENCES CLOSING PACKAGE

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. To accurately report the Attorney General's Office's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Detailed instructions for completing each closing package are included in the GAAP Closing Procedures Manual (GAAP Manual).

The agency reported an annual leave liability of \$604,354 and the number of employees [expressed in full-time equivalents (FTE)] at June 30 earning annual leave as 137.125 on the fiscal year 1999 compensated absences closing package. However, the agency's Leave Liability Report has a total of \$710,589 and a FTE employee count of 138.125. As a result, the annual leave liability at June 30, 1999, was understated \$106,235 and the employee count was understated.

Sections 1.8 and 1.9 of the GAAP Manual state that the "agency's executive director and finance director" have responsibility for submitting accurate and complete closing packages. The manual directs the agency to perform an effective, independent review of each completed closing package and its supporting working papers. It requires the independent reviewer to trace all amounts and other information on the forms to the agency's accounting and other source records.

We recommend that the agency implement procedures which ensure that all closing packages are accurately and properly completed in accordance with the GAAP Manual instructions and guidance. The required thorough review of each completed closing package should be made before it is submitted to the State Comptroller General's Office.

MANAGEMENT'S RESPONSE



The State of South Carolina
OFFICE OF THE ATTORNEY GENERAL

CHARLES M. CONDON
ATTORNEY GENERAL

September 28, 2000

Mr. Thomas L. Wagner, Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, S.C. 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft copy of the report resulting from your agreed-upon procedures engagement for the fiscal year ended June 30, 1999. We wish to offer the following response to the findings noted in the report:

TEMPORARY GRANT POSITIONS

The Office of the Attorney General originally established the unlawful practice of law positions as State funded slots. This created a variance as the funding source of the actual positions did not agree with the funds that were planned to be used to pay the programs obligations. The Office initially charged the General Fund for salaries of the program and subsequently reversed those entries and charged the same to correct Earmarked subfunds. The Office allowed the last quarter of salaries and fringe benefits payments to remain in the General Fund to allow time to research the programs history and align the positions with the proper funding source. We saw no problem with this since the funding source and the funding assigned to the positions were the same. We have subsequently reviewed all Agency positions and aligned all positions with the proper funding source.

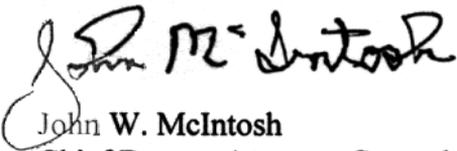
COMPENSATED ABSENCES CLOSING PACKAGE

The Office of the Attorney General purchased and installed the payroll and personnel modules of the SABARS accounting system software during FY 99. This system generated a leave liability report that could be used to prepare the Compensated Absences Closing Package. Agency staff tested this report extensively by tracing all employee's leave balances and hourly rates to agency records. The amount reported on the Compensated Absences Closing Package was transferred

directly from the "Liability" column of the SABARS Leave Liability report. The amounts on the closing package were traced back to agency workpapers by the independent reviewer. We did not discover nor were we informed by the vendor that the "Liability" column of the final report was prepared using the old methodology of calculating the liability and was not in compliance with Generally Accepted Accounting Principles. The error in reporting the liability was the result of an error in the report and was not due to any omissions in our review process.

Please release the report with our comments at your earliest convenience. If you have any further questions, please contact Danny Edens at 734-3771.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. McIntosh". The signature is written in a cursive style with a large initial "J" and "M".

John W. McIntosh
Chief Deputy Attorney General

JWM/jde