

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

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 14, 2018

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

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Attorney General's Office (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2017. The Office's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Office. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures - South Carolina Attorney General's Office (E20)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$150,000 and 10% for General Funds, \$140,000 and 10% for Earmarked Funds, and \$25,000 and 10% for Federal Funds.
2. Randomly select twenty cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of our procedures except as described in the applicable finding of the Composite Reservoir Accounts section.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$200,000 and 10% for General Funds, \$150,000 and 10% for Earmarked Funds, and \$50,000 and 10% for Federal Funds.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Office procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Office procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Office, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$200,000 and 10% for General Funds, \$150,000 and 10% for Earmarked Funds, and \$50,000 and 10% for Federal Funds.
8. Randomly select twenty-five employees and for one haphazardly selected pay period inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Inspect all bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
10. Randomly select fifteen employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Randomly select ten employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.
13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

14. Randomly select seven journal entries and thirteen transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with Office-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

18. In addition to the procedure above, we performed the following:

- Grants and Contributions Revenue Reporting Package

Agree reported amounts on the Grant Activity Form to the South Carolina Enterprise Information System (SCEIS) general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy and agree totals to the SCEIS general ledger and/or SCEIS Display Grant Master.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Office prepared records.

Randomly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger, and the SCEIS Asset History Sheet to determine the asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.

Randomly select five capital asset retirements and inspect supporting documentation, the SCEIS general ledger, and the SCEIS Asset History Sheet to determine if the asset was properly removed from the Office's books and the disposal was properly approved.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Office prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Payments for Supplies and Other Billing Charges and Other Adjustments) ; and (3) the effective dates, current expense and future minimum payments of operating leases.

Reporting Packages (Continued)

- Accounts Payable

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor and/or Office prepared records. Haphazardly select ten payables to determine if amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor report and/or Office prepared records.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Office prepared records. In addition, select both payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Findings

Accounts payable and capital asset discrepancies were reported in the engagement for the prior fiscal year. The fiscal year 2017 exceptions encountered are as follows:

Accounts payable, reported through the combination of the Accounts Payable and Subsequent Events Reporting Packages, was understated by approximately \$350,000 due to the combination of a clerical error associated with the use of a payables report from the accounting system and the inadvertent omission of interfund payables under \$100,000, required by CG instructions to be reported as account payables.

A clerical error in applying accounts payable to grant receivable balances on the Grants Activity Form of the Grants and Contributions Revenue Reporting Package resulted in the reported grant receivable balance being understated by approximately \$2,800.

Management's Response

The Office of the Attorney General acquired the Crime Victim Services Division from two separate state agencies through a legislative mandate effective July 1, 2017. The Office of the Attorney General was tasked with paying obligations for these divisions in the new fiscal year which were incurred at their prior agencies. This caused the payables belonging to the prior agencies to reflect in the Attorney General's general ledger for FY2017. These payables were not reported in the Office of the Attorney General's prior year payables and subsequent events packages. The omission of the payables accounted for the majority of the accounts payable and subsequent events reporting package findings reflected in above comments. The Attorney General's Office has reviewed the procedures for the accounts payable, subsequent events and grants packages and will ensure future clerical errors are avoided.

Procurement Card Transactions

19. Haphazardly select five procurement card purchases and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is reasonable based on the cardholder's position.
 - The monthly purchase statement was submitted along with applicable receipts and signed by both the cardholder and supervisor.
 - The transaction did not exceed the single transaction limit or the individual credit card limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

20. Obtain a listing of Office composite reservoir accounts and confirm with Office management that the listing is complete.
21. Obtain fiscal year monthly reconciliations for each composite reservoir account and for eight haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
22. Inspect five haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
23. Inspect five haphazardly selected composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations, were bona fide disbursements of the Office, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Findings

Similar to the finding reported in the prior year, exceptions were encountered for certain composite account reconciliations and receipts. Some bank reconciliations were only performed at year-end rather than monthly, and did not include adequate documentation to support the difference between the book balance and bank balance. One identified difference between the book balance and bank balance of one account was an uncorrected adjustment to the book balance of that account.

Receipt dates were not documented for some composite account receipts, inhibiting the ability to confirm timely deposits of those receipts. It was also noted that two of the operating receipts inspected in procedure 2 were deposited two weeks after the receipt date.

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. The checkbook balances of the Composite Reservoir Accounts are kept in real-time recording and do not reflect outstanding checks on these accounts. Additionally, there are instances when court schedules prohibit timely deposits, however, we will work to ensure proper depositing procedures are met in accordance with the Comptroller General's guidelines.

Status of Prior Findings

24. Through inquiry and inspection, determine if the Office has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Office has taken appropriate corrective action on the findings, except where noted in each of the findings above.