

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

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 26, 2009

The Honorable Henry D. McMaster
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 (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2008, 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 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 at the subfund and object code 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 (\$90,000 - general fund, \$41,600 – earmarked fund, and \$16,100 – 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 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 at the subfund and major object 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 (\$53,100 – general fund, \$39,600 – earmarked fund, and \$15,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

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 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 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 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 compared current year payroll expenditures at the subfund and major object 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 (\$53,100 – general fund, \$39,600 – earmarked fund, and \$15,200 – 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 ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Fund Source Coding and Calculation of Pay in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, all operating transfers and all interagency 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 journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Comptroller General's accounting records to those in STARS as reflected on the Comptroller General's 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 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 selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of the procedures are presented in Capital Assets Closing Package and Reconciliations of Composite Reservoir Accounts in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, 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.

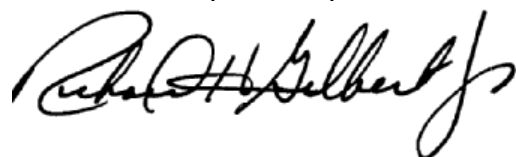
10. **Status of Prior Findings**

- 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, 2007, to determine if the Office had taken corrective action.

Our findings as a result of these procedures are presented in Fund Source Coding and Capital Assets Closing Package 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 Governor and of the Attorney General and 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.

FUND SOURCE CODING

During our testing of payroll transactions we noted one instance in which the fund source code documented on the payroll warrant register did not agree to the Office of Human Resource Employee Profile. The error occurred because a change was made to an employee's payroll funding source and was not reported to the Office of Human Resources. A similar finding was reported in a prior year report.

Section 19-701.05 of the South Carolina Human Resource Regulations states, "As required by 8-11-230 of the South Carolina Code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We again recommend the Office implement procedures to ensure that fund source changes are reported to the HRIS in a timely manner.

CAPITAL ASSETS CLOSING PACKAGE

During our testing of the capital assets closing package we noted that the Office capitalized \$212,324 of computer software as machinery and equipment instead of as an intangible asset. Also, the Office was unable to provide documentation reconciling \$178,395 reported on the accumulated depreciation summary form as a net correction to beginning machinery and equipment balance to its accounting records.

The Comptroller General's GAAP Closing Procedures Manual, Section 3.9, requires that items that lack a physical existence, including computer software, with a cost over \$100,000 be capitalized as intangible assets. In addition, Section 3.9 requires that adequate supporting documentation be prepared and retained to support each amount reported on the closing package.

We recommend the Office implement procedures to ensure that the capital assets closing package is completed in accordance with the Comptroller General's GAAP Closing Procedures Manual instructions. We also recommend that corrections to the current year finding be incorporated into the subsequent year's capital assets closing package as required.

RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNTS

During our testing of the cash and investments closing package, we reviewed the reconciliations of the Clerk of Court's composite reservoir accounts and noted the following:

1. During our review of the Juror Expenses Account transaction register, we noted two deposits were omitted, one check amount was entered incorrectly and the register included excel formula errors. None of these errors were detected during the Clerk of Court's monthly reconciliations and book balances did not agree to bank balances for the months of December 2007 through June 2008 as a result.
2. During our review of the Fines Account reconciliations, we noted the book balance did not reconcile to the bank balance for the months of March 2008 through June 2008. The difference occurred because the Clerk of Court recorded a receipt in the transaction register that was never actually deposited. This error was not detected during the Clerk of Court's reconciliation process. We also noted the Clerk of Court did not record check numbers in its transaction register for the entire fiscal year; therefore we were unable to account for numerical sequence of checks used.
3. The Clerk of Court could not locate its January 2008 reconciliation of the Bond Account.
4. Certain monthly reconciliations of the Filing Fees Account did not contain evidence of proper approval.
5. Because of errors noted in #1 and #2 above, the ending balances for the Juror Expenses Account and the Fines Account reported on the cash and investments closing package were incorrect.

Section 3.1 of the Comptroller General's GAAP Closing Procedures Manual states that the book balance of a bank account is the balance on an agency's accounting records or in an agency's checkbook as of June 30. It also requires the agency reconcile the book balance with the bank statement. In addition, an effective internal control system includes procedures

to ensure reconciliations of the composite reservoir accounts are performed on a monthly basis and are properly prepared and independently reviewed. Errors discovered during the reconciliation process should be promptly corrected.

We recommend the Office implement procedures to ensure that reconciliations of the Clerk of Court composite reservoir accounts are properly prepared and independently reviewed on a monthly basis. We also recommend the Office implement procedures to ensure that all amounts reported on the closing packages contain accurate and complete information in accordance with the Comptroller General's GAAP Closing Procedures Manual.

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.

CALCULATION OF PAY

We determined the Office underpaid an employee \$5 when calculating his final pay. The employee's timesheet documented that he worked 81.75 hours during the pay period; however the employee was only paid for 81.50 hours worked.

A well designed and an effective internal control system includes independent reviews of payroll calculations and verification of support documentation used in those calculations.

We recommend the Office develop and implement procedures to ensure that payments to employees are correctly calculated. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to 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 Attorney General's Office for the fiscal year ended June 30, 2007, and dated July 11, 2008. We determined that the Attorney General's Office has taken adequate corrective action on the finding titled Object Code. We determined the other findings titled Fund Source Coding and Capital Assets Closing Package still exist; consequently we have reported similar findings in Section A of the report.

MANAGEMENT'S RESPONSE

Fund Source Coding

In response to this finding the Office of the Attorney General has initiated a data cleansing process to reconcile funding sources between the OAG and State HRIS. We have also adopted a procedure by which this reconciliation will take place on an annual basis.

Capital Assets Closing Package

The OAG will take action to reclassify software in the amount of \$212,324 as an intangible asset. This will be shown on the 2009 Asset Closing Package as a correction to a prior year balance.

The SCOAG will improve the documentation of the reclassification of assets in future years so we may provide clarity in the management of our assets. Accounting system constraints did not allow for the proper documenting of the identified net correction. Steps will be implemented to ensure the office is in compliance with the Comptroller General's GAAP Closing Procedures Manual instructions.

Reconciliations of Composite Reservoir Accounts

The Clerk of Court's Office will revise current accounting procedures to ensure that each of the five accounts are properly prepared and independently reviewed on a monthly basis. Steps are in place to make certain all reported amounts on the closing packages contain correct and complete information in accordance with the Comptroller General's GAAP Closing Procedures Manual.

Calculation of Pay

The SC Office of the Attorney General will revise our current procedures to ensure that payments to employees are correctly calculated. Our current methods include independent reviews of payroll calculations, and while we will continue this practice, we will add additional procedures to guarantee the accuracy of payroll amounts.

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