

**OFFICE OF THE ATTORNEY GENERAL
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the **Office of the Attorney General** for the year ended June 30, 1999, found:

- proper recording and reporting of transactions, in all material aspects, in the Commonwealth Accounting and Reporting System;
- a certain matter that we consider a reportable condition; however, we do not believe it is a material weakness;
- we recommend that management periodically review access to the Collection Partner System to ensure that employees only have the access they need to perform their duties; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

September 3, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

AGENCY BACKGROUND

The Attorney General is the chief legal officer of the Commonwealth and, through the Department of Law, provides legal advice and represents officers, officials, and agencies of the Commonwealth. The Department also enforces consumer protection laws and investigates Medicaid fraud and money laundering operations.

The Department received general fund appropriations of \$14,938,687 and collected \$3,462,856 in legal services fees from non-general fund agencies, with related expenses of \$17,954,148. The Department also has received \$1,060,108 for federal programs including investigation of Medicaid fraud and money laundering operations and spent \$1,068,756. Amounts spent in excess of collections were from the cash balance of \$78,314 on hand at July 1, 1998. Over 86 percent of the Department's expenses represent payroll and fringe benefits for its 277 employees.

DIVISION OF DEBT COLLECTION

The Division of Debt Collection, organized as a separate agency within the Office of the Attorney General, collects delinquent accounts for other state agencies. The staff of 15 investigated approximately 6,255 active cases totaling over \$83 million at June 30, 1999. The Division records the cases on its Collection Partner system. This system can track up to 15,000 active accounts, including all financial and non-financial activity for each account.

During fiscal year 1999, the Division collected debts of \$12,376,331. Collection fees charged totaled \$1,224,832 and can equal 30 percent of total collections for each agency. The Division funds operations through these collection fees, spending \$827,640, including general overhead. The Division had an ending cash balance of \$958,491.

INTERNAL CONTROL FINDING AND RECOMMENDATION

Develop Written Access Policies

The Division of Debt Collection does not have written policies on employee access to the new Collection Partner accounts receivable system. Without written policies, the Division did not clearly identify the levels of access that individual staff should have been given to the system. Four employees had unnecessary access to update non-financial information within the system. Management should develop written access policies ensuring that staff have only the access necessary to perform their duties and that access is periodically reviewed and revised when job duties change.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Office of the Attorney General** for the year ended and June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenues
- Expenditures, including Payroll
- Debt Collections and Distributions

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Office of the Attorney General properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Office records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect management's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled "Develop Written Access Policies" is discussed in the section entitled "Internal Control Finding and Recommendation." We believe the reportable condition is not a material weaknesses.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, the Attorney General, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on September 3, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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OFFICE OF THE ATTORNEY GENERAL
Richmond, Virginia

Mark L. Earley, Attorney General

Randolph A. Beales, Chief Deputy Attorney General

Stephen D. Haner, Director of Administration

John H. Vance, Director of Finance and Operations