

**SOUTH CAROLINA JUDICIAL DEPARTMENT**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 7, 2015

The Honorable Nikki R. Haley, Governor  
and  
The Honorable Jean H. Toal, Chief Justice  
South Carolina Judicial Department  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Judicial Department (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, in the areas addressed. The Department'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 twenty-five 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 thirteen 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 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 (\$5,200 – general fund, \$118,300 – earmarked fund, and \$6,600 – federal fund) and  $\pm 10$  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 twenty-five 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 Department, 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 twenty-five 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 account 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 (\$260,400 – general fund, \$113,600 – earmarked fund, and \$11,900 – federal fund) and  $\pm 10$  percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and payroll transactions 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 fourteen selected new employees and eleven individuals 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 account 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 (\$260,400 – general fund, \$113,600 – earmarked fund, and \$11,900 – federal fund) and  $\pm 10$  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  $\pm 10$  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 and Interagency Appropriation/Cash Transfers**

- We inspected eighteen selected recorded journal entries and all interagency appropriation/cash 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 Department's policies and procedures and State regulations.

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

5. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected two selected reconciliations of balances in the Department'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 Department'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 Department's accounting records.

*Cash Receipts and Revenues*

- We inspected six 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 the same 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 obtained all monthly reconciliations prepared by the Department.

*Non-Payroll Disbursements and Expenditures*

- We inspected all 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 Department, 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.

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

6. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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, 2014, prepared by the Department 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 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, 2014, prepared by the Department 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 Department resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor  
and  
The Honorable Jean H. Toal, Chief Justice  
South Carolina Judicial Department  
October 7, 2015

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 Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up On Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than 3 business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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, the Chief Justice and the management of the South Carolina Judicial Department and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA  
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.

## **REPORTING PACKAGES**

### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Department submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared or misstated. To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors casts doubt on the ability of the State's internal controls to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. Preparation and maintenance of working papers is a primary responsibility of each agency. The following describes the errors noted on certain fiscal year 2014 reporting packages:

### Prepaid Expenses Reporting Package

During our testing of the Prepaid Expenses Reporting Package, we noted amounts reported as Total Prepaid and Total Current Prepaid were understated and amounts reported as Total Expensed were overstated for the following funds, respectively: Fund 1001 - \$11,911; Fund 36340000 - \$54,166 and Fund 37330000 - \$2,107. In addition, we noted the non-current prepaid expense of \$3,956 was incorrectly reported for Fund 37330000 instead of Fund 39C70000.

Department personnel stated the errors noted were a result of the vendor billing invoices having different benefit dates than the original contract documentation.

### Other Payroll Liabilities Reporting Package

During our testing of the Other Payroll Liabilities Reporting Package we noted accrued annual leave liability for three employees was erroneously reported. This leave liability included 22.5 hours of annual leave (7.5 hours for each employee) taken prior to June 30, 2014. As a result of this error, the Department's annual leave liability was overstated by \$473. Additionally, the Department did not report the errors on the Subsequent Events Questionnaire.

Department personnel stated the annual leave balance for two employees was incorrect because the leave request was processed after the reporting package was submitted. For the third employee, the original leave request was incorrectly keyed as sick leave rather than annual leave and the correction was not made until after the reporting package was submitted.

## Recommendation

We recommend the Department strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

## **SECTION B - 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 Department for the fiscal year ended June 30, 2013, and dated January 16, 2015. We determined that the Department has taken adequate corrective action on the deficiencies titled Account Coding, Operating Leases, and Accounts Payable. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct the deficiency titled Deposit Date reported in the prior year. However, because the procedures were implemented after June 30, 2014, we did not perform tests of the new procedures. Further, we determined the findings titled Prepaid Expenses and Other Payroll Liabilities still exist; consequently we have reported similar findings titled Reporting Packages in Section A of the report.

**MANAGEMENT'S RESPONSE**

Our review of the State Auditor's report is complete and we authorize the release of the report.

## **Section A – Violations of State Laws, Rules or Regulations**

### ***Reporting Packages - Prepaid Expenses and Other Payroll Liabilities***

**Auditor's Recommendation:** We recommend the Department strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

**Management Response:** We acknowledge the findings of the auditors. We have updated our procedures for processing and reporting prepaid expenses to include a review of effective term dates on all supporting documents. Also, policies and procedures for receiving late leave slips have been updated to include a final review of leave liability prior to submitting the subsequent event package.

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