

**SOUTH CAROLINA
ADMINISTRATIVE LAW COURT
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 28, 2015

The Honorable Nikki R. Haley, Governor
and
The Honorable Ralph K. Anderson, III
Chief Administrative Law Judge
South Carolina Administrative Law Court
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Administrative Law Court (the Court), solely to assist you in evaluating the performance of the Court for the fiscal year ended June 30, 2014, in the areas addressed. The Court'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 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Court's policies and procedures and State regulations.
- We inspected 25 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 earmarked fund to ensure that revenue was classified properly in the Court's accounting records. The scope was based on agreed upon materiality level (\$15,500 – earmarked 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 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Court's policies and procedures and State regulations, were bona fide disbursements of the South Carolina Administrative Law Court, 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 7 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 and earmarked funds to ensure that expenditures were classified properly in the Court's accounting records. The scope was based on agreed upon materiality levels (\$19,600 – general fund and \$13,300 – earmarked fund) and ± 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 25 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 were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Court's policies and procedures and State regulations.
- We inspected payroll transactions for all new employees and all individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Court'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 and earmarked funds to ensure that expenditures were classified properly in the Court's accounting records. The scope was based on agreed upon materiality levels (\$19,600 – general fund and \$13,300 – earmarked 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Court's accounting records.

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

4. **Journal Entries**

- We inspected 5 selected recorded journal entries 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 Court'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. **Appropriation Act**

- We inspected Court documents, observed processes, and/or made inquiries of Court personnel to determine the Court'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.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Court 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 closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Employee Leave Balance and Timely Reporting in the Accountant's Comments section of this report.

7. **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 Court resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Court had taken corrective action.

Our finding as a result of these procedures is presented in Employee Leave Balance in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
The Honorable Ralph K. Anderson, III
South Carolina Administrative Law Court
April 28, 2015

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 management of the South Carolina Administrative Law Court and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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.

EMPLOYEE LEAVE BALANCE

During our testing of the Other Payroll Liabilities Reporting Package, we noted an employee's annual leave balance was incorrectly recorded on the FY2014 Compensated Absences Report. The Compensated Absences Report indicated the employee had an annual leave balance of 150.51 hours as of June 30, 2014, while the SCEIS Cumulated Time Evaluation Results Report displayed an annual leave balance of 105.51 hours. The discrepancy occurred because the employee did not input his/her leave timely. The isolated incident resulted in an overstatement of the Court's reported liability balance of \$1,103.

The Comptroller General's Policies and Procedures state: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

We recommend the Court follow the policies and procedures established by the Comptroller General's Office to ensure that reporting packages are completed in accordance with instructions. In addition, we recommend the Court strengthen its controls over leave submission and approval, to ensure accurate and complete reporting at fiscal year-end.

TIMELY REPORTING

During our review of the Court's Reporting Packages we noted that the Subsequent Events Reporting Package was not submitted in a timely manner. The Comptroller General's instructions required that the questionnaire be submitted by Friday, November 7, 2014. The Court did not submit the questionnaire until Monday, November 17, 2014, six working days after it was due.

The Comptroller General's Policies and Procedures state: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

We recommend the Court follow the policies and procedures established by the Comptroller General's Office to ensure that reporting packages are completed and submitted in a timely manner.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SCEIS ACCESS

During our testing of the Court's accounting transactions, we noted that all transactions were initiated by one person. Based on our observation of the workflow in SCEIS, we inquired about SCEIS login procedures. Based on this inquiry, we confirmed that two employees shared one SCEIS login. The Court has recently made a request to SCEIS to correct the role access, but the deficiency had not been resolved by the end of our fieldwork.

Adequate separation of duties is required to achieve strong internal controls.

We recommend the Court establish separate logins with appropriate roles in SCEIS for employees with finance responsibilities.

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 Court for the fiscal year ended June 30, 2013, and dated October 7, 2014. We determined that the Court has taken adequate corrective action on each of the findings, except we have repeated Employee Leave Balance.

MANAGEMENT'S RESPONSE

STATE OF SOUTH CAROLINA
Administrative Law Court

Ralph K. Anderson, III
Chief Judge

Jana E. Cox Shealy
Clerk



PHONE: (803) 734-0550
FAX: (803) 734-6400
WEB: WWW.SCALC.NET

June 10, 2015

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert,

The South Carolina Administrative Law Court has reviewed the preliminary draft of the report resulting from the agreed-upon procedures of the accounting records for fiscal year ended June 30, 2014. The agency will take appropriate action regarding your comments made in the report.

I am authorizing the release of the report and we appreciate the courtesy and efficiency your staff exhibited during the engagement.

Sincerely,

Ralph K. Anderson, III
Chief Judge

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