

**TOWN OF OLAR MUNICIPAL COURT
OLAR, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT
JUNE 30, 2016**

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**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

April 25, 2017

The Honorable Henry McMaster, Governor
State of South Carolina
Columbia, South Carolina

The Honorable Edward Freeman, Chief Judge
Ms. Charlene Morris, Town Clerk/Treasurer
Town of Olar
Olar, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the Olar Municipal Court System as of and for the year ended June 30, 2016, was issued by Steven L. Blake, CPA, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

STEVEN L. BLAKE, CPA

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 25, 2017

The Honorable Edward Freeman, Chief Judge
Town of Olar Municipal Court
Olar, South Carolina

Ms. Charlene Morris, Town Clerk/Treasurer
Town of Olar
Olar, South Carolina

I have performed the procedures described below, which were agreed to by the Town of Olar Municipal Court, solely to assist you in evaluating the performance of the Town of Olar Municipal Court for the period July 1, 2015 through June 30, 2016, in the areas addressed. The Town of Olar Municipal Court 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 Office of the State Auditor and the Town of Olar Municipal Court. Consequently, I 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. Clerk of Court

- I gained an understanding of the policies and procedures established by the Clerk of Court to determine timely reporting by the Clerk of Court's Office.
- I obtained the court dockets or equivalent from the Clerk of Court. I judgmentally selected twenty-five cases from the court dockets and recalculated the fine, fee, assessment and surcharge calculation to determine that the fine, fee, assessment or surcharge was properly adjudicated in accordance with applicable State law and the South Carolina Court Administration Fee Memoranda.
- I tested twenty-five judgmentally selected recorded court receipt transactions to determine that the fine, fee, assessment and/or surcharge adheres to State law and the South Carolina Court Administration Fee Memoranda.
- I tested twenty-five judgmentally selected recorded court receipt transactions to determine that the receipts were allocated and apportioned in accordance with applicable State law.

My findings as a result of these procedures are presented in Timely, Accurate Reporting by the Clerk of Court in the Accountant's Comments section of this report.

2. Municipal Treasurer

- I gained an understanding of the policies and procedures established by the municipal treasurer to determine timely reporting by the municipality.
- I obtained copies of all court remittance forms or equivalents and tested each monthly remittance form to determine that the forms were completed and submitted timely in accordance with State law.
- I verified that amounts reported on the monthly court remittance forms or equivalents agreed to the municipality's support.
- I scanned the municipality's support to determine if the municipality had misclassified fine, fee, assessment, and surcharge receipts.
- I obtained copies of all State Treasurer's Revenue Remittance Forms for the period July 1, 2015 through June 30, 2016. I vouched the amounts reported on the State Treasurer's Revenue Remittance Forms to the court remittance forms or equivalents.
- I verified that the amounts reported by the municipality on its supplemental schedule of fines and assessments agreed to the municipality's support.
- I determined that the Town's supplementary schedule of fines and assessments contained all the required elements in accordance with State law.

My findings as a result of these procedures are presented in Timely, Accurate Recording and Reporting by the Town Treasurer in the Accountant's Comments section of this report.

3. Victim Assistance

- I gained an understanding of the policies and procedures established by the municipality to determine proper accounting for victim assistance funds.
- I made inquiries and performed substantive procedures to determine that any funds retained by the municipality for victim assistance were deposited into a separate account.
- I tested selected expenditures to determine that the municipality expended victim assistance funds in accordance with State law and South Carolina Court Administration Fee Memoranda, Attachment L.
- I determined that the municipality reported victim assistance financial activity on the supplemental schedule of fines and assessments in accordance with applicable State law.
- I verified that the amounts reported by the municipality on its supplemental schedule of fines and assessments applicable to the Victim Assistance fund agreed to the Municipality's general ledger or subsidiary ledgers.
- I inspected the Municipality's victim assistance bank account to determine if the Victim Assistance fund balance was retained as of July 1 from the previous fiscal year in accordance with State law.

My findings as a result of these procedures are presented in Victim Assistance Funds in the Accountant's Comments section of this report.

4. Calculation of Over/(Under) Reported Amounts

- I obtained copies of monthly State Treasurer Revenue Remittance Forms for the 24 month period ended June 30, 2016, which the Town prepared and submitted to the Office of the State Treasurer. I calculated the amount under reported by the Municipality by category.

The results of my procedures disclosed that the Municipality under reported amounts due to the State and Victim Assistance Fund. My finding as a result of these procedures is presented in Under Reported Amounts in the Accountant's Comments section of this report.

I was not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on compliance with the collection and distribution of court generated revenue at any level of court for the twelve months ended June 30, 2016 and, furthermore, I was not engaged to express an opinion on the effectiveness of internal controls over compliance with the laws, rules and regulations described in paragraph one and the procedures of this report. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of the Chairmen of the House Ways and Means Committee, Senate Finance Committee, House Judiciary Committee, Senate Judiciary Committee, members of the Town of Olar Council, Town of Olar Clerk of Court, Town of Olar Treasurer, State Treasurer, State Office of Victim Assistance, the Chief Justice, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Steven L. Blake, CPA

ACCOUNTANT'S COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of the entity is responsible for establishing and maintaining internal controls to determine compliance with State Laws, Rules or Regulations governing court collections and remittances. The procedures agreed to by the entity require that I 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.

TIMELY, ACCURATE REPORTING BY THE CLERK OF COURT

Adherence to Fine Guidelines

During my test of Municipal Court collections and remittances, I noted the following instances in which the Court did not fine the defendant in accordance with State law or local ordinance:

The Court fined one individual \$57.83 for speeding in excess of the above posted limit but not in excess of ten miles an hour.

Also, the Court fine three individuals \$45.78 for a violation of a local traffic ordinance.

Section 56-5-1520(G) of the 1976 South Carolina Code of Laws, as amended, states,

“ A person violating the speed limits established by this section is guilty of a misdemeanor and, upon conviction for a first offense, must be fined or imprisoned as follows:

(1) in excess of the above posted limit but not in excess of ten miles an hour by a fine of not less than fifteen dollars nor more than twenty-five dollars; . . .”

The local ordinance states “Any person found guilty of violating this ordinance shall be fined not less than fifty dollars and not more than five hundred dollars.”

The Clerk stated the Court was lenient and reduced these fines. However, they were reduced below the minimum fine in accordance with State law and local ordinance.

I recommend the Court implement procedures to ensure the fines are in accordance with State law and local ordinance.

Manual System Errors and Omissions

I noted that the State Treasurer’s Revenue Remittance Forms [**STRRF**] are prepared using a manual system to tabulate the amount of money collected and a mathematical formula to calculate and allocate the fine, assessment and surcharge portions. I noted the following errors and omissions in this system:

- The totals obtained by tabulation and calculation are not reconciled or verified that they are complete by comparison with actual amounts deposited or receipted. See Reconciling Monthly Collections finding in Section B below.
- The surcharge portion is calculated by manually summing the receipts for ticket collections and multiplying it by the surcharge amount. The sum is not compared or verified with a check figure, i.e. a list of the relevant receipt numbers, to determine completeness.
- The fine allocation percentage is used instead of the assessment allocation percentage to further allocate the remaining fine and assessment portion into the

assessment portion, prior to allocating the assessment portion into the State's share and the Victim Assistance share of the assessment. This results in under reporting the State and Victim Assistance share of the total collections and over reporting the Town's fine portion.

Section 14-1-220 of the 1976 South Carolina Code of Laws, as amended, states, 'Each...municipal clerk of court or other person who receives monies from the cost of court assessments in criminal or traffic cases in the municipal courts shall transmit all these monies to the Office of the State Treasurer.' The STRRF instructions further provide that 100% of collections be reported in their respective line items.

The Clerk/Treasurer stated this manual system is a legacy system and the Town appreciates any suggestions for improvement.

I recommend the Town submit STRRF which contain complete and accurate information.

Installment Payments

I noted the Court received installment payments. The manual system does not allocate installment payments on a pro rata basis. The three percent fee was not assessed.

Section 14-1-209 of the 1976 South Carolina Code of Laws, as amended, provides guidance when the fine and assessment are paid in installments. The Court Administration Fee Memorandum dated July 7, 2015, states, "The intent of Section 14-1-209(C) is that each installment payment be allocated on a pro rata basis to each applicable fine, assessment, and surcharge." and Section 14-17-725 of the 1976 South Carolina Code of Laws, as amended, states, "Where criminal fines, assessments, or restitution payments are paid through installments, a collection cost charge of three percent of the payment also must be collected by the clerk of court, magistrate, or municipal court from the defendant...".

The Town's manual calculations do not allocate and the Clerk stated it is Town policy not to charge the three percent.

I recommend the Municipal Court implement procedures to ensure that installment payments are allocated and the three percent fee is assessed in accordance with State law.

TIMELY, ACCURATE RECORDING AND REPORTING BY THE TOWN TREASURER

Supplementary Schedule

I was provided the Town's financial statements for the year ended April 30, 2015 which contained a schedule of court fines, assessments and surcharges. The Town could not provide

support for any of the information contained in the schedule. The Town received a disclaimer of opinion on its financial statement because of completeness concerns therefore there was no in-relation-to opinion on the schedule of fines, assessments and surcharges. The schedule did not include any information regarding Victim Assistance funds.

Section 14-1-208(E) of the 1976 South Carolina Code of Laws, as amended, states, “(1) To the extent that records are made available in the format determined pursuant to subsection (E)(4), the supplementary schedule must include the following elements: . . .” and (E)(2) also states “The supplementary schedule must be included in the external auditor's report by an "in relation to" paragraph as required by generally accepted auditing standards when information accompanies the basic financial statements in auditor submitted documents..”

The Clerk/treasurer stated that the auditor had prepared the schedule and had not provided a reconciliation to the Town to show how the numbers reconciled to the revenue remittances or the general ledger. The Clerk further stated she was unaware of any aggregate accounting for Victim Assistance funds.

I recommend the Town implement procedures to ensure that amounts reported on the supplementary schedule are accurately reported in accordance with State law, the auditor is informed regarding the required opinion and that an aggregate accounting for Victim Assistance funds be developed.

VICTIM ASSISTANCE FUNDS

During my tests of Court collections and remittances I noted the following:

- The Town has established a separate bank account for Victim Assistance funds as required by State law. However, there is neither an aggregate accounting in the general ledger nor information available in the schedule of fines, assessments and surcharges for cumulative fund balance.
- Information regarding Victim Assistance revenues or expense was not contained in the schedule of fines, assessments and surcharges.
- The Town does not deposit Victim Assistance funds monthly.
- The Town's last deposit allocable to Victim Assistance in the Victim Assistance bank account was cumulative through December 2012 with additional sporadic deposits thereafter. The Town owes Victim Assistance \$17,321.13 representing the sum of the outstanding, undeposited amounts cumulatively through June 30, 2016.

Section 14-1-211(B) of the 1976 South Carolina Code of Laws, as amended, states, “The revenue collected pursuant to subsection (A)(1) must be retained by the jurisdiction which heard or processed the case and paid to the city or county treasurer, for the purpose of providing services for the victims of crime, including those required by law. Any funds retained by the county or city treasurer pursuant to subsection (A)(1) must be deposited into a separate account for the exclusive use for all activities related to the requirements contained in this provision.” Also Section 14-1-208(D) states “All unused funds must be carried forward from year to year.”

The Clerk/treasurer stated the Town’s cash flow did not allow for timely deposits of Victim Assistance revenue.

I recommend the Town establish and implement policies and procedures to ensure Victim Assistance revenue is accounted for and deposited timely in accordance with State law. The Town should also determine the aggregate fund balance for Victim Assistance.

UNDER REPORTED AMOUNTS

As reported in the finding Manual System Errors and Omissions, the Town erred in preparing the monthly STRRF to the State Treasurer. I tested the completeness and accuracy of STTRF for the period July 2014 through June 2016. Based on the tests performed, I determined the Town underreported the following amounts for that period:

STRRF LINE	DESCRIPTION	
F.	Municipal DUS DPS Pullout - \$100	(100.00)
K.	Municipal Law Enforcement Surcharge - \$25 per case	425.00
KA.	Municipal LE Surcharge - \$5	140.00
L.	Municipal Court -107.5%	<u>8,570.50</u>
M.	TOTAL REVENUE DUE TO STATE TREASURER	<u>9,035.50</u>
	RETAINED BY MUNI FOR VICTIM SERVICES	
N.	Assessments - Municipal	<u>1,062.66</u>
P.	TOTAL RETAINED FOR VICTIM SERVICES	<u>\$ 1,062.66</u>

I recommend the Town implement a process to ensure accurate filing and payment of amounts due the State Treasurer.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

RECONCILING MONTHLY COLLECTIONS

During my tracing of fine payments I noted the Town does not reconcile monthly receipts for collecting fine payments with the payments listed on the docket or with deposits to the court bank account. The total payments collected, allocated and reported was \$164,747.75 and the amount of ticket collections deposited in the Court bank account was \$168,699.75; a discrepancy of \$3,952.00 for the procedures period.

Supreme Court Justice Toal issued a court order to county magistrates, dated March 13, 2007. Section II, item C. states, "At the end of each day, all receipts issued shall be totaled, and the total indicated on the Daily Cash Summary Report." Also, Section VI, item F states, "Each month the magistrate court shall reconcile the bank statement to the dockets by adding the total of the disposed traffic docket, the total of the disposed criminal docket, the total pending civil docket, the total of the outstanding bond list, and other monies on deposit. The total of these items should equal the total of the bank account or bank accounts."

The Clerk/Treasurer stated its manual system is a legacy system and the Town appreciates any suggestions for improvement. Also, due to system improvements from the prior report, the timing of reporting is mid-month to mid-month while the bank statements are end of month. This timing difference could account for the variation.

I recommend the Town perform a monthly reconciliation of receipts, summarizing them into a Daily Cash Summary Report for deposit purposes, comparing them with the docket activity for dispositions and the beginning and ending cash balance for bonds pending as soon as possible.

SEGREGATION OF DUTIES AND CROSS-TRAINING

The Treasurer also functions as the Clerk of Court and in this capacity maintains all court finance and court records, issues most court receipts and reconciles court bank accounts.

Section II, item F of Supreme Court Justice Toal's March 13, 2007 court order to county magistrates states, "Unless a magistrate court has only one employee, receiving of funds shall be done by a person not responsible for maintaining and reconciling financial records". Section VII, item A. states, "All magistrates and their staff shall be cross-trained so as to ensure that proper procedures are followed in the absence of a staff member or a magistrate." This order is directed to county magistrate courts, but it could also be applied to municipal courts to improve overall internal control over financial activity.

The Clerk/Treasurer stated that the Town has more than one employee but limited funds do not allow for excess time to cross-train or allow for additional time to complete tasks together.

I recommend the Town consider if it is using its resources efficiently to provide the optimum internal control opportunities.

MUNICIPALITY'S RESPONSE

The management of the Town of Olar has been provided a copy of the findings identified in the Accountant's Comments Section of this report and has elected not to provide a written response to the findings.