

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 20, 2007

The Honorable Mark Sanford, Governor  
and  
The Honorable Marvin F. Kittrell  
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, 2006, 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 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 earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$12,800) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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 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 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 funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$16,800 – general fund and \$4,900 - earmarked 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 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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$16,800 – general fund and \$4,900 – earmarked 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  $\pm 2$  percent to insure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Pay Calculation in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, operating transfers, and 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 Court 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 Court for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Court'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 Court'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 Court's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Court'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, 2006, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Compensated Absences 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 management of the Court 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**

## **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.

## **PAY CALCULATION**

During our test of newly hired employees, we noted that the Court calculated an employee's first paycheck incorrectly. Court personnel used an incorrect number of days to calculate the employee's pay. As a result, the employee was overpaid \$86.36.

Section 8-11-30 of the South Carolina Code of Laws states, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due..."

We recommend the Court implement procedures to ensure that payroll calculations are independently reviewed by someone knowledgeable of the payroll process. Also, the Court should attempt collection of this overpayment.

## **COMPENSATED ABSENCES CLOSING PACKAGE**

The Court used an incorrect number of work hours to determine an hourly rate to calculate a compensated absences liability. The Court has one employee who is 80% of a full-time equivalent employee. The Court used a standard 1950 hours per year to determine the hourly rate for this employee. The Court should have used 1560 hours (80% of 1950) to determine the hourly rate. The Court's compensated absences closing package was understated by \$523.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states, "You may compute the pay rate in effect at June 30 by dividing the employee's annual salary on June 30 by the total hours (or days) worked per year. The total hours (or days) worked per year equals the hours (or days) worked per week times 52 weeks (e.g., 37.5 hours/week x 52 weeks/year = 1950 hours/year or 5 days/week x 52 weeks/year = 260 days/year)."

We recommend the Court implement procedures to require an independent review of individual calculations of its compensated absences liability. The Court should pay special attention to unusual circumstances such as part-time employees, etc.

## RECONCILIATIONS

The Court's revenue reconciliations do not agree to their general ledger. Also the Court's cash balance does not agree to the Comptroller General's (CG) cash balance. The Court uses a spreadsheet to reconcile revenues. The spreadsheet agrees to the CG reports, but not to the Court's general ledger. The general ledger cash balance does not agree to the CG report balance because the Court did not record return check transaction in its general ledger.

Section 4.2.7.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual 4.2.7.20 states,

To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- Performed at least monthly on a timely basis (i.e., shortly after month-end)
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

Monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the level of detail in the Appropriation Act. In the past, some agencies have reconciled only ending cash balances. Reconciling only the ending cash balance does not provide sufficient assurance that receipts and disbursements were properly processed and that revenues and expenditures (or expenses) were correctly classified.

We recommend the Court reconcile all accounts as required by the STARS Manual in order to detect errors. These reconciliations should be agreed to their general ledger.

**MANAGEMENT'S RESPONSE**

STATE OF SOUTH CAROLINA  
*Administrative Law Court*

MARVIN F. KITTRELL  
*Chief Judge*

JANA E. SHEALY  
*Clerk*



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April 18, 2007

Office of the State Auditor  
Richard H. Gilbert, Jr.  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert,

Please allow this letter to serve as authorization to formally release the 2005-2006 State Auditor's Report for the SC Administrative Law Court with responses regarding Accountant's Comments as stated below:

***Payroll Disbursements and Expenditures — Overpayment to employee of \$86.36***

***Actions taken*** - Procedures are in place to ensure that in the future payroll calculations are independently reviewed. The overpayment of \$86.36 has been collected from the employee.

***Compensated Absences Closing Package — Understatement by \$523***

***Action taken*** — Procedures have been implemented to require independent review of calculations of compensated absences liability.

***Reconciliations*** — The agency does not agree to the findings of the audit since it does state that the Court's spreadsheet does balance the CG's General Ledger. The Court's General Ledger was implemented mid-year and a backup spreadsheet was maintained to double check the General Ledger balance. The General Ledger would not allow for checks that were returned by the Treasurer's Office to be entered into the system, therefore the returned check was not reflected in the Agency General Ledger balance but was reflected in the spread sheet balance. The agency does follow the guidelines of Section 4.2.7.20 of the STARS manual pertaining to reconciliations and also reconciles revenue expenditures, receipts, and ensures that all are properly classified.

If you have any questions, please phone Bonnie Moffat at 734-6414.

Sincerely,

A handwritten signature in black ink, appearing to read 'Marvin F. Kittrell', written over a horizontal line.

Marvin F. Kittrell

Chief Judge

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