

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

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 17, 2008

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 governing body and 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, 2007, 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 levels (\$10,100 – earmarked fund) and ± 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. Our finding as a result of these procedures is presented in Recording of Receipts by Fiscal Year in the Accountant's Comments section of this report.

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 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 (\$19,200 – general fund, \$10,100 – 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 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 (\$19,200 – general fund, \$10,100 – 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 ± 5 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 these procedures.

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

- We inspected selected recorded journal entries and all 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. Our finding as a result of these procedures is presented in Journal Entry Transactions in the Accountant's Comments section of this report.

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, 2007, 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. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency'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, 2007, 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.

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 South Carolina Administrative Law Court resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Court had taken corrective action.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
The Honorable Marvin F. Kittrell
South Carolina Administrative Law Court
March 17, 2008

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 governing body 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 - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

RECORDING OF RECEIPTS BY FISCAL YEAR

We tested twenty-five receipt transactions to ensure the receipts were recorded in the proper fiscal year. We determined that the Court recorded one out of twenty-five receipts in the wrong fiscal year. The Court recorded \$3,150, which was received in June 2007, as a fiscal month 01, fiscal year 2008 transaction. As a result fiscal year 2007 revenues were understated by \$3,150.

State Treasurer's year end close-out procedures require that revenue be recorded in the same fiscal year that the funds are received.

We recommend that the Court implement procedures to ensure that accounting staff adhere to year-end close-out procedures.

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.

JOURNAL ENTRY TRANSACTIONS

We tested twenty-five journal entry transactions and found that the account information (i.e., subfund) on twenty journal entries did not agree with the account information recorded in the Court's general ledger.

The Court uses two accounting software systems. One system, Quicken, is used as the Court's general ledger. The other system, BARS, is used to generate accounting documents (e.g., disbursement vouchers, journal entry documents, etc.) which the Court uses as its source document to post to its books of account. The only reason the Court uses BARS to produce source documents is because BARS is programmed to generate documents in a STARS ready format. The Court has not been able to program Quicken to produce documents in the same format. The Court's BARS system however is not programmed to use multiple subfunds, therefore all entries on the paper document are recorded to subfund 1001. Before the Court forwards the document to the Comptroller General's Office they must manually change the subfund on the paper document. The Court posts payroll transactions from journal entries prepared from STARS documents. After the transaction has been posted to the BARS and Quicken system and after Bars has generated a journal voucher the Court discards the manually prepared journal entry form. This is why the source document (JE printed by BARS) does not agree with the account information (Quicken) posted to its general ledger.

An effective system of internal controls includes procedures (i.e., monitoring of accounting transactions) to ensure that the transactions are properly recorded and agree to source documentation.

We recommend the Court implement procedures to ensure that accounting information posted to its general ledger agrees with input documents.

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, 2006, and dated February 20, 2007. We determined that the Court has taken corrective action on each of the findings.

MANAGEMENT'S RESPONSE

STATE OF SOUTH CAROLINA
Administrative Law Court

MARVIN F. KITTRELL
Chief Judge

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April 22, 2008

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 2006-2007 State Auditor's Report for the SC Administrative Law Court .

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", is written over a horizontal line. The signature is fluid and cursive.

Marvin F. Kittrell

Chief Judge

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