

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

STATE AUDITOR'S REPORT

JUNE 30, 2009

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
RECORDING OF DISBURSEMENTS BY FISCAL YEAR	6
RECORDING OF RECEIPTS BY FISCAL YEAR	6
CLOSING PACKAGES	7
Closing Packages Submitted Untimely	7
Compensated Absences Closing Package	7
Capital Assets Closing Package	7
Recommendation	7
SECTION B – OTHER WEAKNESS	8
CASH RECEIPTS	9
SECTION C - STATUS OF PRIOR FINDINGS	10
MANAGEMENT'S RESPONSE	11

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

August 24, 2010

The Honorable Mark Sanford, Governor
and
The Honorable Ralph 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 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, 2009, 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/SAP) 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 fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$18,600 – earmarked fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Recording of Receipts by Fiscal Year and Cash Receipts 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 (\$11,400 – general fund and \$15,300 – earmarked fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Recording of Disbursements by Fiscal Year in the Accountant's Comments section of this report.

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 (\$11,400 – general fund and \$15,300 – 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 ± 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 the procedures.

4. **Journal Entries 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. We found no exceptions as a result of the procedures.

5. **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.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, 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 Closing Packages in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
The Honorable Ralph Anderson, III
South Carolina Administrative Law Court
August 24, 2010

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 South Carolina Administrative Law Court resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Court had taken corrective action. (We applied no procedures to the Court's accounting records and internal controls for the year ended June 30, 2008.)

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.

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.



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.

RECORDING OF DISBURSEMENTS BY FISCAL YEAR

During our testing of disbursements, we noted four out of the twenty-five transactions tested were recorded in the incorrect fiscal year. These transactions were recorded in fiscal year 2010, but were for goods/services received in fiscal year 2009. Therefore, these transactions should have been recorded in fiscal year 2009.

Proviso 89.2 of the 2008-2009 Appropriation Act states that all funds appropriated from the general fund of the State, and other applicable funds are appropriated to meet the ordinary expenses of State government for fiscal year 2008-2009.

We recommend the Court strengthen its procedures to ensure that disbursements are recorded in the proper fiscal year.

RECORDING OF RECEIPTS BY FISCAL YEAR

We tested twenty-five receipt transactions to ensure that receipts were recorded in the proper fiscal year. One receipt was received in fiscal year 2008, but was recorded in fiscal year 2009. Another receipt was received in fiscal year 2009, but was recorded in fiscal year 2010. This is a repeat finding from the fiscal year 2007 report. (We did not apply procedures to the fiscal year 2008.)

The South Carolina 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 the Court implement procedures to ensure that accounting staff adhere to year-end close-out procedures.

CLOSING PACKAGES

Closing Packages Submitted Untimely

We tested all of the Court's closing packages and noted that all of the closing packages were submitted late to the South Carolina Comptroller General's Office.

Compensated Absences Closing Package

During our testing of the fiscal year 2009 Compensated Absences Annual Liability Report, we noted that the employee salary reported on the liability report for three employees did not agree to their personnel files. The closing package was understated \$1,648.

Section 3.17 of Comptroller General's Closing Procedures Manual instructs agencies to calculate the compensated absence liability using the pay rate in effect at June 30.

Capital Assets Closing Package

During our testing of the Capital Assets Closing Package, we noted the start of year balances for machinery and equipment were not brought forward on the Capital Assets and Accumulated Depreciation Summary Forms. In addition, current year depreciation was reported incorrectly on the Accumulated Depreciation Summary Form. Due to these errors, the capital assets balance was understated \$73,025 and the depreciation was understated \$1,255.

Section 3.9 of the Comptroller General's Closing Procedures Manual instructs agencies to enter the start of year balances. These balances must be the same as the end of year balance on last year's form.

Recommendation

We recommend the Court follow the Comptroller General's Office Closing Procedures Manual instructions to ensure Closing Packages are submitted timely and reported properly.

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.

CASH RECEIPTS

We tested twenty-five cash receipts to ensure that the receipts were recorded in the proper fiscal year. Based on our tests we determined that the Court did not record three of the cash receipts in its general ledger. We were unable to determine why the error occurred or why the error was not detected by the agency's accounting staff.

Effective internal controls and good business practices require the timely recording of accounting transactions. Timely recording of accounting transactions provides management with current information which enables them to make sound business decisions based on current information. Effective internal controls also include policies and procedures which ensure the timely detection and correction of errors.

We recommend the Court develop and implement procedures to ensure timely reconciliation of the agency's subsidiary ledger (receipt book) to the general ledger to ensure that all transactions are posted.

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, 2007, and dated March 17, 2008. (We applied no procedures to the Court's accounting records and internal controls for the year ended June 30, 2008.) We determined that the agency has taken corrective action on the finding entitled Journal Entry Transactions. However, we determined that the agency has not taken corrective action on the finding entitled Recording of Receipts by Fiscal Year. Therefore, we have repeated this finding.

MANAGEMENT'S RESPONSE

STATE OF SOUTH CAROLINA
Administrative Law Court

RALPH K. "TRIPP" ANDERSON, III
Chief Judge

JANA E. SHEALY
Clerk



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

October 20, 2010

Mr. Richard Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

Please allow this letter to serve as the response to your preliminary draft of the report resulting from the agreed upon procedures engagement relative to the accounting records of the SC Administrative Law Court for the fiscal year ended June 30, 2009.

RECORDING OF DISBURSEMENTS BY FISCAL YEAR

I concur with the audit finding. However; the previous finance director was terminated on July 1, 2009 and the new director is complying with these accounting responsibilities. Also during the audit period the agency was forced to reduce the accounting staff from two employees to only one.

RECORDING OF RECEIPTS BY FISCAL YEAR

I concur with the audit finding. However; the previous finance director was terminated on July 1, 2009 and the new director is complying with these accounting responsibilities. Also during the audit period the agency was forced to reduce the accounting staff from two employees to only one.

CLOSING PACKAGES SUBMITTED UNTIMELY

I concur with the audit finding. However; the previous finance director was terminated on July 1, 2009 and the new director is complying with these accounting responsibilities. Also during the audit period the agency was forced to reduce the accounting staff from two employees to only one.

CAPITAL ASSETS CLOSING PACKAGE

I concur with the audit finding. However; the agency was transitioning from the previous

finance director to the current finance director who will comply with these accounting responsibilities.

CASH RECEIPTS

I concur with the audit finding. However; the previous finance director was terminated on July 1, 2009 and the new director is complying with these accounting responsibilities. Also during the audit period the agency was forced to reduce the accounting staff from two employees to only one.

Sincerely,

A handwritten signature in black ink that reads "Ralph King Anderson, III". The signature is written in a cursive style with a long horizontal flourish at the end.

Ralph King Anderson, III

cc: Margaret Sanders

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.