

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

STATE AUDITOR'S REPORT

JUNE 30, 2012

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 26, 2013

The Honorable Nikki R. Haley, 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, 2012, 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 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 agency's accounting records. The scope was based on agreed upon materiality level (\$13,800 – 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 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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$16,000 general fund, \$14,000 – earmarked fund, and \$0 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Coding of Disbursements 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 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 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 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$16,000 – general fund and \$14,000 – earmarked fund ± 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, 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 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. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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 reporting packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, by the Court and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. **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, 2009, 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, 2010 and 2011.)

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor
and
The Honorable Ralph Anderson, III
South Carolina Administrative Law Court
August 26, 2013

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.

CODING OF DISBURSEMENTS

During our test of disbursements and while applying analytical procedures, we noted that rent payments for rent of state owned office space was recorded as Rent – Non-State Owned Property.

The Comptroller General's Expenditure General Ledger Account Definitions states that expenditures for the use, occupancy, and right of possession of lands, buildings, and parking facilities owned by the State of South Carolina should be posted to the Rent – State Owned Property.

We recommend the Court's accounting personnel responsible for approving accounting transactions carefully review accounting transactions to ensure proper account coding before approving and posting the transaction to the general ledger.

REPORTING PACKAGES

Accounts Payable Reporting Package

During our Cutoff test of Disbursements we noted that three of the twenty five transactions tested were recorded in the incorrect fiscal year. The transactions in question were recorded in fiscal year 2013, but the services were performed in fiscal year 2012. Since the Court received the invoices after the year-end cut-off date for processing fiscal year 2012 transactions, they should have reported the transactions as accounts payable in the Reporting Package. The Court reported a zero balance in their accounts payable Reporting Package understating liabilities by \$2,465.

Section 3.12 of the Comptroller General's Reporting Policies and Procedures Manual states that GAAP for governmental entities require the reporting of liabilities (unpaid obligations) of the government as of the end of the year (June 30).

Compensated Absences Reporting Package

During our test of Annual Leave Liability we noted that one employee's annual leave balance on their leave statement did not match the Annual Leave Liability Report. This error caused the Compensated Absences Reporting Package to be understated \$928. The employee's leave balance did not include increased leave earnings based on 20 years of state service.

Section 3.17 of the Comptroller General's Reporting Policies and Procedures Manual states the following: "Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form".

Recommendation

We recommend the Court follow the Comptroller General's Office Year-End Reporting Policies and Procedures Manual instructions to ensure Reporting Packages are completed properly.

SECTION B - 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 South Carolina Administrative Law Court for the fiscal year ended June 30, 2009, and dated August 24, 2010. (We applied no procedures to the Court's accounting records and internal controls for the year ended June 30, 2010 and 2011.) We determined that the Court has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Administrative Law Court

Ralph K. Anderson, III
Chief Judge

Jana E. Cox Shealy
Clerk



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September 25, 2013

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, 2012.

Exception: Coding of Disbursement

Response: The SC Administrative Law Court was informed by the Comptroller General's Office in April of 2013 that rent for the Edgar A. Brown Building was incorrectly coded. After being informed in April, the accounting code was changed from (0413) Rent-Non State Owned Real Property to (0415) Rent-State Owned Real Property.

Exception: Accounts Payable Reporting Package

Response: The SC Administrative Law Court will ensure that the Accounts Payable Reporting Package be completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

Exception: Compensated Absences Reporting Package

Response: The SC Administrative Law Court concurs with the finding as outlined in the report.

Our review of the draft report is complete and we authorize the release of the report. We appreciate the efficiency and courtesy rendered while auditing our fiscal year ending records of June 30, 2012.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ralph K. Anderson, III". The signature is written in a cursive style and is positioned above the typed name.

Ralph K. Anderson, III
Chief Judge

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