

**SOUTH CAROLINA JUDICIAL DEPARTMENT**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2016**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS	6
PREPAID EXPENSES REPORTING PACKAGE	7
SECTION B - STATUS OF PRIOR FINDINGS	8



**South Carolina  
Office of the State Auditor**

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

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

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March 29, 2017

The Honorable Donald W. Beatty, Chief Justice  
South Carolina Judicial Department  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Judicial Department (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2016, in the areas addressed. The Department'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 twenty-five selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected twenty-five 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 general, earmarked, and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$4,700 – general fund, \$135,100 – earmarked fund, and \$6,100 – federal fund) and  $\pm 10$  percent.
- We obtained all monthly reconciliations of the Department's EFlex receipting system to SCEIS. We selected the year-end reconciliation and determined it was performed timely and properly documented. We also determined if reconciling differences were adequately explained and properly resolved.

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 twenty-five selected recorded non-payroll disbursements, to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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 twenty-five 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$267,000 – general fund, \$143,800 – earmarked fund, and \$6,900 – federal 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 twenty-five 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department's policies and procedures and State regulations.
- We inspected payroll transactions for ten selected new employees and eleven individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department'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 Department's accounting records. The scope was based on agreed upon materiality levels (\$267,000 – general fund and \$143,800 – 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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Interagency Appropriation/Cash Transfers**

- We inspected twenty-one selected recorded journal entries and five interagency appropriation/cash 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 Department'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. **Composite Reservoir Account**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2016, and inspected two selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly 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 Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

*Cash Receipts and Revenues*

- We inspected two months of selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected two months of 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.

*Non-Payroll Disbursements and Expenditures*

- We inspected two months of selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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 two months of selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations and transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2016 prepared by the Department 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 finding as a result of these procedures is presented in Prepaid Expenses Reporting Package in the Accountant's Comments section of this report.

8. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2015, to determine if the Department had taken corrective action.

We found no exceptions as a result of the procedures.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

The Honorable Donald W. Beatty, Chief Justice  
South Carolina Judicial Department  
March 29, 2017

We were not engaged to and did not conduct an examination, 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 management of the Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



George L. Kennedy, III, CPA  
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.

## **PREPAID EXPENSES REPORTING PACKAGE**

### **Condition:**

During our testing of the Prepaid Expenses Reporting Package we noted the Department reported prepaid expenses of \$5,028 on the Prepaid Expenses Summary Form related to the purchase of office supplies. However, these purchases did not have a specified future benefit period and therefore did not represent prepaid expenses.

### **Cause:**

Department personnel stated during the preparer's review of the Procurement Card Statement, office supplies were inadvertently classified as prepaid expenses.

### **Effect:**

The Department was not in compliance with the Comptroller General's Reporting Policies and Procedures Manual. In addition, the amounts reported for Total Prepaid, Current, Non-Current, and Expensed were overstated by \$5,028, \$2,862, \$2,166, and \$1,618, respectively.

### **Criteria:**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

### **Recommendation:**

We recommend the Department strengthen its policies and procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing packages and compare the supporting working papers prior to submission to eliminate errors.

### **Management's Response:**

SCJD has a large volume of prepaid expenditures. It is a laborious and time consuming process to examine and verify all invoices containing prepaid amounts. SCJD's Finance and Personnel Division has strengthened its procedures, such as performing quarterly audits of noted prepaid items, to ensure proper reporting. The reporting packages will be complete, accurate, and timely.

**SECTION B - STATUS OF PRIOR FINDING**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2015, and dated March 23, 2017. We determined the Department has taken adequate corrective action on the finding.

2 copies of this document were published at an estimated printing cost of \$1.35 each, and a total printing cost of \$2.70. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.