

SOUTH CAROLINA JUDICIAL DEPARTMENT

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 16, 2015

The Honorable Nikki R. Haley, Governor
and
The Honorable Jean H. Toal, 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, 2013, 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 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 general, earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$5,700 – general fund, \$114,600 – earmarked fund, and \$34,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Deposit Date and Account Coding 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 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 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 (\$252,600 – general fund, \$96,700 – earmarked fund, and \$30,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding 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, 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 (\$252,600 – general fund, \$96,700 – earmarked fund, and \$30,600 – federal 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 ± 10 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 Interagency Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and interagency 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. All operating transfers and interagency appropriation transfers were selected. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013, and inspected 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 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 obtained all monthly reconciliations prepared by the Department.

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 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 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **Appropriation Act**

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

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, 2013, 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 findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, prepared by the Department 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

9. **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, 2011, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012.

Our finding as a result of these procedures is presented in Deposit Date in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
The Honorable Jean H. Toal, Chief Justice
South Carolina Judicial Department
January 16, 2015

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, the Chief Justice and the management of the South Carolina Judicial Department 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.

DEPOSIT DATE

During our testing of cash receipt transactions, we noted that three of twenty-five cash receipts tested were not deposited in accordance with Department policy and State laws, rules, and regulations. The receipts were deposited between eleven and eighteen days after the date of receipt. A similar finding was reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2011. (We applied no procedures to the accounting records and internal controls for the year ended June 30, 2012).

Section 1.27 of the Department's accounting manual states, "Revenue batches should be forwarded to Finance 2-3 times weekly or daily if necessary." This section also states, "Deposits are made at minimum once a week or as necessary." Proviso 89.1 of the 2012-2013 Appropriation Act states, "...all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes licenses, fees, and the sale of commodities and service...must be remitted to the State Treasurer at least once each week...".

We determined that personnel responsible for receiving cash did not always follow Department policy. As a result, cash receipts were not deposited timely as defined by Section 1.27 of the Department's accounting manual and Proviso 89.1 of the Appropriation Act.

We recommend the Department ensure that personnel responsible for receiving cash adhere to the Department's receipt and deposit procedures and ensure that all divisions within the Department are aware of the procedures and the requirement of the Appropriation Act.

ACCOUNT CODING

During our cut off test of revenue, we noted two transactions were improperly coded to G/L Account 4110030001 (Docketing Fee - Appeal) instead of G/L Account 4110030002 (Docketing Fee - Motion). In addition, during our testing of non-payroll cash disbursement transactions, we noted the Department improperly recorded sales tax between two GL accounts (502007005 – Data Process Serv. – Consulting and 503006000 – Data Process Equipment) when it should have been charged only to 503006000.

The Comptroller General's Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent accounting treatment.

We recommend the Department ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

REPORTING PACKAGES

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Department submitted to the CG certain fiscal year 2013 reporting packages that were incorrectly prepared, misstated, or without adequate supporting documentation. To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. We all must work together to implement procedures that

keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. Preparation and maintenance of working papers is a primary responsibility of each agency. The following describes the errors noted on certain fiscal year 2013 reporting packages:

Prepaid Expenses

During our testing of the Prepaid Expenses Reporting Package, we noted amounts reported on the Prepaid Expense Summary, Form 3.7.1a, did not agree to the Prepaid Expense Analysis, Form 3.7.1

Department personnel stated the Excel spreadsheet used to assist the preparer in completing the form was not used properly. Some lines had formulas and other amounts were typed in manually which created errors in the spreadsheet.

Operating Leases

During our review of the Operating Leases Future Minimum Payment Schedule, Form 3.09.1a, we noted the Department reported future minimum payments of \$10,046 for a copier lease. The final payment for this lease was made in May 2014; therefore, the Department should not have reported a future minimum payment. Department personnel stated this reporting error was due to there being some confusion about the prepayment of the annual lease amount and when the last payment would actually be made.

Also, the Department incorrectly reported payments on maintenance contracts totaling \$23,128 as contingent rental payments on the Operating Leases Summary Form – Lessee, Form 3.09.1. Department personnel stated this reporting error was due to oversight and a misunderstanding about which account maintenance contracts should be recorded in.

Accounts Payable

During our review of the Accounts Payable Summary, Form 3.12.1, we noted the Department reported a payable amount of \$804 in fund 30350072. This amount should have been reported separately as a payable of \$534 in fund 30350072 and \$270 in fund 30350073. We also noted that a payable of \$750 reported in fund 30730000 should have been reported in fund 30760000.

Department personnel stated these errors were due to oversight and keying errors.

Other Payroll Liabilities

During our review of the Other Payroll Liabilities Reporting Package, we noted the Department adjusted the leave balances for various employees on the Comptroller General's Compensated Absences Report. The Department could not provide documentation to support the adjusted hours; therefore we were unable to verify the accuracy of the adjusted leave balances.

Department personnel stated the documentation could not be located as the files were saved on a former employee's computer who assisted in preparing the reporting package.

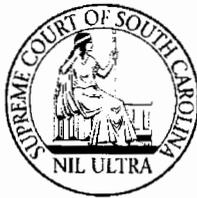
Recommendation

We recommend the Department implement procedures to ensure that proper accounting records are maintained and that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

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, 2011, and dated September 12, 2012. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012. We determined that the deficiency titled Deposit Date still exists; consequently we have reported a similar finding in Section A of the report.

MANAGEMENT'S RESPONSE



South Carolina Judicial Department Finance and Personnel

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March 12, 2015

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

Dear Mr. Gilbert:

We have reviewed the State Auditor's Report resulting from the agreed-upon procedures of the South Carolina Judicial Department for the fiscal year ended June 30, 2013. The Judicial Department will continue improve its processes. We have already taken corrective action on the issues cited by your audit staff. We do not believe that any of the findings represent a material impact to the State's financial reports. Our responses to your findings are listed below.

Our review of the draft report is complete and we authorize the release of the report.

Section A – Violations of State Laws, Rules or Regulations

Deposit Date

Auditor's Recommendation: We recommend the Department ensure that personnel responsible for receiving cash adhere to the Department's receipt and deposit procedures and ensure that all divisions within the Department are aware of the procedures and the requirement of the Appropriation Act.

Management Response: We acknowledge the findings by the auditor that funds were not transferred for deposit in a timely manner. We believe these instances to be infrequent occurrences. The department will continue to work with division staff to ensure the timely transfer of funds in order to meet deposit requirements.

Account Coding

Auditor's Recommendation: The Department should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

Management Response: We acknowledge the findings of the auditors, but feel these are isolated mistakes and represent minor deficiencies with no material impact to reporting.

Reporting Packages – Prepaid Expenses, Operating Leases, Accounts Payable and Other Payroll Liabilities

Auditor's Recommendation: We recommend the Department implement procedures to ensure that proper accounting records are maintained and that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

Management Response: We acknowledge the findings of the auditors. We have corrected the work papers that are used in the preparation of the year-end closing packages. We have also updated our policies and procedures for retaining documents related to Finance and Human Resources transactions. All closing packages for FY14 were reported correctly and will continue to be reported correctly in all future years.

Sincerely,



Carolyn P. Taylor
Director of Finance & Personnel
SC Judicial Department

4 copies of this document were published at an estimated printing cost of \$1.55 each, and a total printing cost of \$6.20. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.