

**SOUTH CAROLINA
JUDICIAL DEPARTMENT
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 16, 2018

The Honorable Donald W. Beatty, Chief Justice
and
Management of the South Carolina Judicial Department
South Carolina Judicial Department
1231 Gervais Street
Columbia, South Carolina 29201

Dear Chief Justice Beatty:

We have performed the procedures described in Attachment 1, which were agreed to by the Chief Justice and the management of the South Carolina Judicial Department (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

This report is intended solely for the information and use of the Chief Justice and 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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures Related to the South Carolina Judicial Department (B04)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$5,000 and 10% in General Funds, \$125,000 and 10% in Earmarked Funds and \$20,000 and 10% in Federal Funds.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2017 Appropriations Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Finding

Proviso 117.1 of the fiscal year 2017 Appropriations Act requires the remittance of state revenues to the State Treasurer at least once each week, when practical. The Department has policies and procedures in place designed to ensure timely recording and depositing of monies in accordance with this proviso. Section 1.27 of the Department's finance 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." We determined that personnel responsible for receiving cash did not always follow Department policy. As a result, we noted two cash receipts were not deposited timely as defined by Section 1.27 of the Department's finance manual.

Management's Response

The Judicial Department's procedures for handling cash/checks are designed to ensure the Department's assets are safeguarded and properly accounted for in a timely manner. Our procedures do not provide a definition for timeliness. As the finding states, "Revenue batches should be forwarded to the Finance 2-3 times weekly or daily if necessary." The Division which initially received the referenced checks did send multiple revenue batches to Finance within a week of receiving them. The finance manual also states, "Deposits are made at minimum once a week or as necessary." The Finance Division did make multiple deposits within a week of the Department receiving the checks. By following Department procedures, the two \$25 receipts in question were deposited in seven and eight business days. Proviso 117.1 does not clearly define timeliness, it states revenues must be remitted to the State Treasurer at least once each week, when **practical**. The proviso does not define the number or type of days that make up a week. Based on the type of funds received and the steps taken to ensure the receipts were properly accounted for, the deposits were made in a reasonable (**practical**) amount of time.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$250,000 and 10% in General Funds, \$125,000 and 10% in Earmarked Funds and \$100,000 and 10% in Federal Funds.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Randomly select twenty-five non-payroll disbursements, including five disbursements from general ledger account 5112010000, and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / confirm proper sales/use tax.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$250,000 and 10% in General Funds, \$125,000 and 10% in Earmarked Funds and \$100,000 and 10% in Federal Funds.
8. Randomly select twenty employees and inspect supporting documentation for one haphazardly selected pay period during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
- Determine that any expense allowance was paid in accordance with Proviso 57.5 of the fiscal year 2017 Appropriations Act.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
 - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
9. Randomly select five employees who received taxable subsistence payments and inspect supporting documentation for one haphazardly selected payment during the fiscal year to:
 - Agree payment for taxable subsistence to travel reimbursement request.
 - Determine that the employee was paid in accordance with the Department's policies and procedures and Proviso 117.20 of the fiscal year 2017 Appropriations Act.
 10. Randomly select twelve employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

11. Randomly select twelve employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than or equal to 10%.
13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes greater than or equal to 10%.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

14. Randomly select eight journal entries and transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
18. In addition to the procedure above, we will perform the following:

- Grants and Contributions Revenue Reporting Package

Agree reported amounts on the Grant Activity Form to the South Carolina Enterprise Information System (SCEIS) general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy and agree totals to the SCEIS general ledger and/or SCEIS Display Grant Master.

Reporting Packages (Continued)

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select fifteen prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

- Accounts Payable

Haphazardly select ten payables to determine if amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Prior Year Payables with Vendor report and/or Department prepared records.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

We found no exceptions as a result of these procedures.

Capital Assets

19. Randomly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet, to determine the asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
20. Randomly select two capital asset retirements and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet, to determine if the asset was properly removed from the Department's books and the disposal was properly approved.

Procurement Card Transactions

21. Haphazardly select ten procurement card purchases and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is reasonable based on the cardholder's position.
 - The monthly purchase statement was submitted along with applicable receipts and signed by both the cardholder and supervisor.
 - The transaction did not exceed the single transaction limit or the individual credit card limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

Composite Reservoir Accounts

22. Confirm with the Department their use of the Bar Examiners composite reservoir account.
23. Obtain fiscal year monthly reconciliations for the composite reservoir account and for two of the reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and were mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
24. Inspect five composite reservoir account receipts from each selected reconciliation to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
25. Inspect the sole composite reservoir account disbursement from one selected reconciliation to determine if the disbursement was properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, was a bona fide disbursement of the Department, was paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations. No disbursements were made from the other selected reconciliation.

We found no exceptions as a result of these procedures.

E-flex Filing System Reconciliations

26. Obtain fiscal year monthly reconciliations for the Departments E-flex filing system and for two of the reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed, properly documented, and reviewed.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Determine if reconciling differences were adequately explained and properly resolved.

We found no exceptions as a result of these procedures.

Status of Prior Finding

27. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the finding reported during the engagement for the prior fiscal year.

We found no exceptions as a result of these procedures.