

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

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

February 19, 2020

The Honorable Ralph K. Anderson, III
South Carolina Administrative Law Court
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Administrative Law Court (the Court), on the systems, processes and behaviors related to financial activity of the Court for the fiscal year ended June 30, 2019. The Court'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 Court. 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 Court has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the Court 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 Administrative Law Court (C05)**

Cash Receipts/Revenues

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following general ledger (G/L) accounts: Earmarked Funds: G/L Account 4220010000 (Court Fine).
2. Haphazardly select ten cash receipts transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law and that any fee increases are in accordance with Proviso 117.7 of the Appropriation Act.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

Two inspected transactions totaling \$2,335 were incorrectly coded by the Court. One transaction was \$2,125 in docketing fees coded to G/L Account 4380050000 (Photocopying Fees); the transaction should have been coded to G/L Account 4110030000 (Docketing Fees). The second transaction was \$210 in proceeds from surplus property recorded to G/L Account 4010020004 (Employer Withholding Inc Tax); the transaction should have been coded to G/L Account 4480070000 (Sale of Surplus Materials and Supplies).

Management's Response

We concur that the G/L account for one deposit should have been posted to the docketing fee account instead of the copy fee account and surplus property proceeds G/L should have been coded as sale of surplus materials and supplies. Management will continue to review G/L accounts monthly to ensure documents are coded correctly.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations for the following G/L Accounts: General Funds: G/L Account Series 503 – Supplies and Materials.
4. Haphazardly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Court procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Court procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Court.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, Court-specific provisos, etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select five purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for Fiscal Year 2019 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Court policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Findings

G/L Account Coding - Assets - The Court did not appropriately allocate labor and sales tax to items within a purchase of electronic equipment totaling \$48,158. As a result, the Court did not recognize any of the items as potential low-value assets (value over \$2,500) or potential capital assets (value over \$5,000). Due to the complex nature of the items purchased and the details of the invoice, we were unable to determine the exact number of assets and value of each to be recorded.

G/L Account Coding - Expenditures - The Court incorrectly coded expenditures for support plans and services totaling \$8,277 to various 503- G/L accounts (Supplies and Materials); these expenditures should have been recorded to the appropriate 502- G/L Account 5020077100 (Services, Maintenance, and Warranties – Application Support).

Management's Response

The Court concurs with the finding. The coding of some items purchased should have been coded low value assets or capital assets when allocating labor and tax. We will ensure future G/L accounts will be coded properly and we will work with SCEIS in correcting assets that have been coded incorrectly and when creating an asset shell, include labor and tax for equipment purchased. Also, items such as support services for servers, licenses, etc. will be posted as contractual services instead of supplies and materials for future postings.

Payroll

6. 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 variations greater than 10%.
7. 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 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select five employees and one pay period and inspect supporting documentation during the fiscal year to:
 - 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 Court.

Payroll (Continued)

For Salaried Employees:

- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Haphazardly select four employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Court'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.
10. Haphazardly select five bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - The bonuses received during the year did not exceed \$3,000.
 - The payment amount agreed to supporting documentation and the bonus was given for a proper reason in accordance with Court policy.
 - The bonus pay was approved by the appropriate supervisor.

We found no exceptions as a result of the procedures.

Journal Entries

11. Haphazardly select five journal entries 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.

Finding

The Court posted an improper journal entry, attempting to move its FY19 pension credit totaling \$17,042 from general funds to earmarked funds. The Court incorrectly credited general funds, where the transaction was posted originally, and incorrectly debited earmarked funds. This caused the transaction to be recorded for a second time.

Management's Response

We concur with this finding and will ensure that any future posting is performed correctly.

Reporting Packages

12. Obtain copies of fiscal year end reporting packages submitted to the 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.

Reporting Packages (Continued)

13. In addition to the procedure above, perform the following:

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Asset History Sheet and/or Court prepared records.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Court prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) one haphazardly selected payment for each vendor included in all rental payment classifications; and (2) agree applicable effective dates and future minimum lease payments on the future minimum lease payment schedule to the prior year schedule. In addition, confirm that the Court submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- Fund Balance Reporting Package

Determine if responses and any related supplemental information are reasonable/accurate based on inspection of the SCEIS general ledger, invoices, and/or Court prepared reports/spreadsheets.

- 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 Court prepared records.

Findings

Timely Submission of Reporting Packages - The Master Reporting Checklist was due on 7/5/19 but was not submitted to the CG until 7/11/19.

Fund Balance Reporting Package - The Court did not report Fund 31687000 (escrow account), FY19 year-end balance of \$201,000, on the fund balance reporting package.

Management's Response

The Court will take appropriate action regarding the findings related to the Master Reporting Checklist and escrow account fund balance. We will take steps to ensure reporting packages are complete and timely.

Assets and Personal Property

14. Haphazardly select one capital asset and two low-value asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each 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.

15. Confirm that an inventory of Court property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Assets and Personal Property (Continued)

Finding

The Court incorrectly added \$4,601 and \$4,176 to the value of existing SCEIS assets 290000230010 and 290000230020, respectively, when purchasing similar assets in FY19. These items should have been recorded as two new low value assets in SCEIS.

Management's Response

The Court acknowledges that when adding two additional assets, they were not to be added to existing purchases made in FY19 of a similar nature. The items should have been recorded as two new low value assets and we will work with SCEIS to have this manner rectified.

Status of Prior Findings

16. Through inquiry and inspection, determine if the Court has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Court has taken adequate corrective action on the findings regarding purchasing card monthly summary statements and the operating leases reporting package. However, we identified a similar finding regarding the timely submission of reporting packages, see finding at **Reporting Packages**.