

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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

August 16, 2007

The Honorable Mark Sanford, 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, 2006, 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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the 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 (\$7,700 – general fund, \$88,600 – earmarked fund, and \$40,200 – federal fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Object Code 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code 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 (\$131,800 – general fund, \$73,100 – earmarked fund, and \$40,300 – 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 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, including employee payroll deductions, 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 selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code 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 (\$131,800 – general fund, \$73,100 – earmarked fund, and \$40,300 – federal 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  $\pm 2$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Pay Period in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, and all 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 journey entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate, the numerical sequences of selected document series were complete, the selected monthly totals were accurately posted to the general ledger, and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 STARS 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 and/or in STARS.

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

7. **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.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, 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.

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 of 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.



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **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.



## **CLOSING PACKAGES**

### **Grant/Contribution Revenues**

During our review of the Grant/Contribution Revenues Closing Package, it was noted that the Department reported its operating grant receivables as unrestricted instead of operating. The reporting error was the result of a misinterpretation of classification definitions.

The Comptroller General's GAAP Closing Procedures Manual defines operating grants and unrestricted grants as follows:

- Operating grants include:
  - Grants that you may use only to finance operations.
  - Grants that you may use either to finance operations or for capital purposes.
- Unrestricted grant: The grantor provides funds that are not restricted for use in a particular program.

We recommend the Department carefully review the Closing Package Manual to ensure proper classification of grant receivables on the Grant/Contribution Closing Package.

### **Cash and Investments**

During our review of the Cash and Investments Closing Package, it was discovered that the book balance of the composite reservoir bank account was misstated by \$1,900. This misstatement occurred because the Department did not identify two checks as outstanding items in the June bank reconciliation.

The Comptroller General's GAAP Closing Procedures Manual, Section 1.7, Summary of Agencies Responsibilities states: "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

We recommend the Department develop and implement written control procedures over the administration of the composite reservoir account. We also recommend a careful supervisory review of bank reconciliations.

### **REVENUE OBJECT CODE**

During our revenue comparison testwork, it was noted that Federal funds received from another state agency on a sub-grant basis were coded to the incorrect object code. When the Department received federal grant funds from another state agency object code 2822 – Federal Operating Grants was used instead of object code 2805 – Federal Grant Sub-Contract State Agencies. The miscoding occurred due to a misinterpretation by Department personnel.

Object codes 2805 and 2822 are defined in Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting (STARS) manual.

We recommend that the Department implement procedures to ensure that individuals responsible for recording the Department's grant revenue transactions are knowledgeable of the applicable object codes as defined by the Comptroller General's STARS manual. Furthermore, we recommend the Department implement control procedures requiring an independent review to ensure proper coding.

### **PAY PERIOD**

We tested the personnel and payroll records of twenty-five newly hired employees. One of the randomly selected employees tested was not paid in accordance with the State's pay schedule. The employee began work on August 1, 2005. She received her first paycheck on September 1, 2005. Her check included payment for work performed on August 1. The employee should have received a paycheck on August 16, 2005 because August 1, 2005 was the last day of the pay period. The employee was not paid in accordance with the State's pay

schedule because paperwork was not submitted to the Department's payroll office in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states, in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2<sup>nd</sup> of the prior fiscal year with the first pay period ending on June 16<sup>th</sup> of the prior fiscal year. The payroll period continues on a twice monthly schedule as established by the State Budget and Control Board."

We recommend the Department implement procedures to ensure that payroll information is submitted timely to ensure timely payment in accordance with the State's pay schedule.

## **MANAGEMENT'S RESPONSE**



## South Carolina Judicial Department

### Finance and Personnel

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September 17, 2007

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

Dear Mr. Gilbert:

We have completed our review of the preliminary draft of the report resulting from the performance of agreed-upon procedures to the accounting records of the South Carolina Judicial Department for the fiscal year ended June 30, 2006. We regret that your office has adopted an approach that does not allow for the exercise of auditors' judgment when unexpected items are encountered.

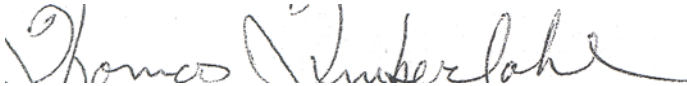
In response to the four violations you cited we agree with your finding titled Cash and Investments in which you pointed out that a reconciliation contained an error and your finding titled Revenue Object Code in which an incorrect object code was used to record grant receipts. We feel these are isolated mistakes and represent minor deficiencies. We will take corrective action to avoid a reoccurrence of these mistakes.

We do not agree that your finding titled Grant/Contribution Revenues represents a violation of law, regulation or rule worthy of noting. You noted on the closing package that grant receivables were identified as unrestricted rather than operating. We discovered this misclassification through our ongoing review and took appropriate documented corrective action prior to your review. We feel this is an indicator of a properly functioning accounting system and do not feel it warrants your comment. We also do not agree that your finding titled Pay Period represents a violation of law, regulation or rule worthy of note. In this case an employee began work on August 1 but was unable to provide all necessary documentation in time to have that one day of pay included in the August 16 payroll. Financial management of the Judicial Department does not believe it is the intent of the law to pay an employee prior to receiving appropriate required documentation. You refer to Section 8-11-35 of the Code of Laws in support of this comment.

Section 11-35-45 of the Code of Laws states in part that the period of time to process payments "shall not begin until the agency...certifies its satisfaction with the received goods or services and proper invoice." We believe it is prudent exercise of financial responsibility to make payment after obtaining appropriate documentation. We believe these are examples of situations in which the auditor should be allowed to exercise discretion. We will however endeavor to prevent the items cited from occurring again.

The South Carolina Judicial Department works conscientiously to ensure that all state laws, regulations and rules are followed. Although we disagree with some of your findings we appreciate the professional and efficient way your examination was performed. We authorize the release of the report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas B. Timberlake". The signature is fluid and cursive, with the first name "Thomas" being more prominent and the last name "Timberlake" following in a similar style.

Thomas B. Timberlake

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.