

**SOUTH CAROLINA
DEPARTMENT OF EDUCATION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 23, 2009

The Honorable Jim Rex
State Superintendent of Education
South Carolina Department of Education
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Education (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2008, 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 general, earmarked, restricted 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 (\$11,100 – general fund, \$132,900 – earmarked fund, \$1,059,400 – restricted fund, and \$1,058,700 – federal fund) and ± 10 and 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 Object Codes 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, restricted 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 (\$3,386,600 – general fund, \$117,800 – earmarked fund, \$1,131,800 – restricted fund, and \$1,058,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes 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, 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, restricted 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 (\$3,386,600 – general fund, \$117,800 – earmarked fund, \$1,131,800 – restricted fund, and \$1,058,200 – 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 ± 5 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 Payroll Disbursements in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, appropriation transfers, and all operating 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 and appropriation transfer transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes in the Accountant's Comments section of this report.

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, 2008, 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, 2008, 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 finding as a result of these procedures is 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, 2008, 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.

10. **Status of Prior Findings**

- We inquired about the status of the findings 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, 2007, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Object Codes, Incorrect Pay Period, and Closing Packages in the Accountant's Comments section of this report.

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 State Superintendent of Education and management of the South Carolina Department of Education 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

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.

OBJECT CODES

We found three Education Improvement Act allocation transactions that did not use the proper Statewide Accounting and Reporting (STARS) object code. One allocation was an expenditure to a county for professional development. STARS object code 1610 (Allocations – EIA – South Carolina State University Paraeducator Program) was used instead of 1691 (Allocations – EIA – Professional Development). Two allocations were transfers to the Governor's School for Science and Math. STARS object 1663 (Allocations – EIA – Other State Agencies) was used instead of 1697 (Allocations – EIA – Governor's School for Science and Math).

In addition, we noted one receipt transaction for the Teacher Advancement Program was coded to STARS object code 7201 (Miscellaneous Revenue) instead of object code 7506 (Other Operating Grants – Restricted).

Sections 2.16.10 and 2.1.6.20 of the Comptroller General's STARS Manual defines object codes.

We recommend the Department follow procedures to review the proper object codes when recording all transactions types.

PAYROLL DISBURSEMENTS

We tested twenty-five payroll additions to ensure that the employees were properly added to the payroll system. One of the twenty-five employees tested was not paid in accordance with the State's pay schedule. The employee started work on March 17, 2008, but did not receive a paycheck until July 16, 2008. The check represented pay earned for two pay periods. The employee was not paid timely because paperwork was not submitted to the Payroll Department in a timely manner. In addition, Department documentation supporting the

salary paid to another employee did not agree with amounts reported on the Office of Human Resources (OHR) Employee Profile form.

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 a June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues there after on a twice monthly schedule as established by the State Budget and Control Board.”

Section 8-11-230 of the Code of Laws says in part, “The Budget and Control Board is authorized and directed to: Establish and maintain a central personnel data system on all State employees covered by this article, both classified and unclassified, and in coordination with agencies served, determine that data to be recorded on employees and positions and the procedures and forms to be used by all agencies in reporting data.

We recommend the Department implement procedures to ensure that all employees are paid in accordance with the State’s prescribed pay schedule. Also, the Department should ensure that accurate information is maintained in the State’s data system.

CLOSING PACKAGES

Compensated Absences Closing Package

We noted that the pay rates and leave balances on the leave liability report for several employees did not agree with Department records. The Department had identified and corrected the majority of the pay rate discrepancies before submitting the closing package to the Comptroller General’s Office. However, the Department did not correct all of the errors which it deemed to be immaterial.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states, the State's policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30.

We recommend the Department implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package.

Grants/Contribution Revenues Closing Package

The Department's grants/contribution revenues closing package did not include accounts receivables associated with June expenditures incurred but not paid. The Department should include these expenditures in their grants/receivable closing package calculation because the grantor pays the Department on a reimbursement basis. The closing package was understated \$4 million.

Section 3.3 of the Comptroller General's GAAP Closing Procedures Manual requires agencies to record a receivable if the agency has met the revenue recognition criteria (the Department did) and the agency had not yet received the related cash from the grantor.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and reviewing the Grants/Contribution Revenue Closing Package are familiar with the closing package requirements.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department of Education for the fiscal year ended June 30, 2008, and dated May 13, 2008. We determined that the office has taken adequate corrective action on one of the findings. We have repeated the findings entitled Object Codes, Payroll Disbursements, (last year's report title Incorrect Pay Period), and Closing Packages.

MANAGEMENT'S RESPONSE

PAYROLL DISBURSEMENTS

We tested twenty-five payroll additions to ensure that the employees were properly added to the payroll system. One of the twenty-five employees tested was not paid in accordance with the State's pay schedule. The employee started work on March 17, 2008, but did not receive a paycheck until July 16, 2008. The check represented pay earned for two pay periods. The employee was not paid timely because paperwork was not submitted to the Payroll Department in a timely manner. In addition, Department documentation supporting the salary paid to another employee did not agree with amounts reported on the Office of Human Resources (OHR) Employee Profile form.

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 a June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues there after on a twice monthly schedule as established by the State Budget and Control Board."

Section 8-11-230 of the Code of Laws says in part, "The Budget and Control Board is authorized and directed to: Establish and maintain a central personnel data system on all State employees covered by this article, both classified and unclassified, and in coordination with agencies served, determine that data to be recorded on employees and positions and the procedures and forms to be used by all agencies in reporting data. We recommend the Department implement procedures to ensure that all employees are paid in accordance with the State's prescribed pay schedule. Also, the Department should ensure that accurate information is maintained in the State's data system.

MANAGEMENT RESPONSE

The SCDE is aware of the problem with submission of late time sheets. We have and continue to communicate with all offices, First Steps, GSSM, and GSAH that all time sheets and transactions (including all paperwork) must be submitted to the payroll office in a timely manner. When paperwork is submitted for new hires, the payroll office will also contact new employees to insure that timesheets are submitted in a timely manner.

Grants/Contribution Revenues Closing Package

The Department's grant/contribution revenues closing package did not include accounts receivables associated with June expenditures incurred but not paid. The Department should include these expenditures in their grant/receivable closing package calculation because the grantor pays the Department on a reimbursement basis. The closing package was understated \$4 million.

Response: The Department did include June expenditures incurred but not paid for subfund 5055, which was the majority of the expenditures. Six project component codes in subfund 5038 and 5532 combined were excluded in error. The accountant who usually prepares the closing package was on leave during this time period and another staff member prepared the package in her absence. It was an oversight that should have been noticed by the reviewer but was not. Both preparer and reviewer will ensure that all federal grants are included in the package each fiscal year.

OBJECT CODES

The Department of Education will ensure that individuals responsible for preparing and approving accounting transactions are knowledgeable of STARS object codes. Management will periodically review posted object codes for accuracy.

COMPENSATED ABSENCES CLOSING PACKAGE

The Department of Education will check the Annual Leave Liability Report received from the State Office of Human Resources against agency payroll records to ensure the accuracy of the Compensated Absences Closing Package.

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.