

**WIL LOU GRAY OPPORTUNITY SCHOOL
WEST COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2009

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 12, 2010

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the Wil Lou Gray Opportunity School (the School), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2009, in the areas addressed. The School'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, 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 (\$7,600 – earmarked fund, \$9,300 – restricted fund, and \$2,500 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in General Ledger Account Codes and Revenue Correction 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 School 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 (\$28,300 – general fund, \$4,400 – earmarked fund, \$9,500 – restricted fund, and \$2,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in General Ledger Account Codes, Payment of Invoices, and Cut-Off of Expenditures 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 (\$28,300 – general fund, \$4,400 – earmarked fund, \$9,500 – restricted fund, and \$2,100 – 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 Final Pay Calculation in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries, and all 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. We found no exceptions as a result of the procedures.

5. **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.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, prepared by the School 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 Reconciliation of Composite Reservoir Account in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2009, prepared by the School 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.

8. **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 School resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the School had taken corrective action. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2008.

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 governing body and management of the Wil Lou Gray Opportunity School 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.

GENERAL LEDGER ACCOUNT CODES

We tested twenty-five disbursement transactions. We noted two transactions were coded to an incorrect general ledger account code. The expenditures pertained to copies made from the School's copying equipment. The School recorded the expenditure using general ledger account code 5020020000 – "Copying Equipment Services" instead of general ledger account code 5040050000 – "Contingent Rental Equipment."

We tested twenty-five receipt transactions. We noted nine receipt documents were coded to an incorrect general ledger account code. The receipts were for salary reimbursements from the U.S. Army for JROTC instructors. The School recorded the receipts to general ledger account code 4890100000 – "Federal Grant Subcontract State Agencies" instead of general ledger account code 4280020000 – "Federal Operating Grant – Restricted."

The South Carolina Enterprise Information System (SCEIS) Account Listing defines the revenue and expenditure general ledger codes to help agencies properly classify transactions.

We recommend the School refer to the SCEIS Account Listing to ensure transactions are properly classified.

CUT-OFF OF EXPENDITURES

We tested twenty-five expenditures to ensure that the expenditure was recorded in the proper fiscal year. We noted one payment was not paid in the proper year. The voucher was payment of an invoice for motor vehicle services performed on May 11, 2009. The invoice was paid on August 12, 2009.

Proviso 89.2 of the fiscal year 2008-2009 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this part, if so much is necessary, are appropriated from the General Fund of the State, the Education Improvement Act Fund, the Highways and Public Transportation Funds, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2008-2009...".

We recommend the School strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

FINAL PAY CALCULATION

We tested employees who terminated employment during the fiscal year to ensure that the employees' final pay was properly calculated. We noted one instance in which an employee's final pay was incorrectly calculated. Based on our review of the employee's timesheet we noted that the employee's last day worked was on February 16, 2009. On March 1, 2009 the employee was paid for work performed during the period of February 2, 2009 to February 16, 2009. We determined that the employee received an additional pay check on March 16, 2009. This check included payment for deferred salary and the employee's regular semi-monthly pay. The School was unable to provide documentation to support the regular semi-monthly pay on March 16, 2009. We also noted that the employee's annual leave and compensatory time payout on March 1, 2009 was calculated using an incorrect hourly rate. The errors resulted in an overpayment of \$1,022.

Section 8-11-30 of the 1976 Code of Laws states that, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employment of the State to issue vouchers, checks, or otherwise pay salaries or moneys that are not due to state employees of any department of the State..."

We recommend the School implement procedures to ensure proper payment to terminated employees. We also recommend that the procedures include independent reviews of payroll calculations. Finally, we recommend the School attempt to recover the overpayment.

RECONCILIATION OF COMPOSITE RESERVOIR ACCOUNT

We tested the cash and investments closing package and reviewed the reconciliations of the School's student activity account. During our review of the account's transaction register, we noted that the transaction register included an error. The School's reconciliation process did not detect the error. The error caused the book balance reported on the Cash and Investments Closing Package to be understated by \$90.

Section 3.1 of the Comptroller General's GAAP Closing Procedures Manual states that the book balance of a bank account is the balance on your accounting records or in an agency's checkbook on June 30. It also requires the agency reconcile the book balance with the bank statement.

We recommend the School review and enhance their reconciliation procedures to ensure errors are detected. We also recommend the School implement procedures to ensure that all amounts reported on the closing packages contain accurate and complete information in accordance with the Comptroller General's GAAP Closing Procedures Manual.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

REVENUE CORRECTION

The South Carolina Enterprise Information System (SCEIS) is a division of the Budget and Control Board that is responsible for implementing the new statewide accounting system. This team has the ability to post entries to state agencies books. The SCEIS team made an entry for the School that caused an account to be misstated \$200. The SCEIS team used an incorrect fund to record a correction to the School's accounting records.

When the SCEIS team made the correction it did so without input from the School. Furthermore the School was not informed by the SCEIS team that the team made an adjustment to the School's accounting records. The entry in question was made on August 13, 2009, after the fiscal year had ended. The School's accounting staff became aware of the adjustment after the books had been closed. If the SCEIS team had processed the adjustment with the knowledge and input of the School's accounting staff the error may have been detected and corrected before the books were closed.

Effective internal controls require proper review and approval of accounting entries prior to posting to the general ledger.

We recommend the School work with the SCEIS team and develop procedures to ensure that accounting entries initiated by the SCEIS team are reviewed and approved by the agency prior to posting the accounting entries in the agency's books.

PAYMENT OF INVOICES

One of the twenty-five disbursement transactions tested was not paid by the stated due date on the invoice. The invoice related to purchases made with the School's procurement card. The invoice was not paid until the subsequent month's invoice was processed. The invoice was paid twenty-one business days after the due date.

Sound business practices require payment of bills on time. Untimely payments could cause the School to incur late fees.

We recommend the School strengthen its policies and procedures to ensure that invoices are paid in a timely manner.

SECTION C - STATUS OF PRIOR FINDINGS

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 School for the fiscal year ended June 30, 2007, and dated May 15, 2008. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2008. We determined that the School has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE

General Ledger Account Codes

We implemented the SAP system in November 5, 2007. The correct codes were used prior to conversion. To the best of our knowledge, we were instructed to use the other codes by the Comptroller General's Office. The Finance staff has been instructed to make a copy of any rejection emails from the Comptroller General's Office and attach them to the original invoice. In the future, we will use the codes recommended by the audit staff.

Cut-Off of Expenditures

The invoice in question was believed to be a duplicate of another invoice. The Accounts Payable clerk worked with the vendor to clarify the issue. By the time the issue was resolved, the year had closed and we had to pay from the next fiscal year. The Finance staff makes a great effort to ensure all items are paid by year end and are aware of the importance of the thirteenth month cut-off. This payment was an exception to the normal procedure. No corrective action is required.

Final Pay Calculation

We concur with the recommendation and have sent a letter requesting a refund of the overpayment. We appreciate the audit staff discovering this error. Due to the complex nature of payroll at the School, the Finance staff endeavors to make sure every paycheck is correct. It is a testament to their dedication that only one error was discovered. In December, 2009, the School converted to the SAP Human Resources and Payroll system. The system now automatically calculates all paychecks. The School no longer has any authority over the Payroll system. No further corrective action is necessary.

Reconciliation of Composite Reservoir Account

A cancelled check was not deleted from the outstanding checks. As a result, the balance was understated by \$90.00. This amount is immaterial when compared to the total volume of the account. We corrected the error while the auditors were on-site. The Finance staff has looked at automated accounting packages to maintain the account. An automated system would facilitate the reconciliation process. However, each check would have to be input and signed individually which would be too labor intensive for the 100 plus checks done at the end of each cycle.

Revenue Correction

Since we have implemented the SAP System in November, 2007, we have consistently requested that the Project team desist from making entries in our accounts

without our approval or, at a minimum, our knowledge. The Project team has never responded to our requests and continues to make the entries. We have no authority over the Project team and cannot correct the procedure. This recommendation and issue is internal to the South Carolina Budget and Control Board and only they can address it. We, therefore, respectfully request that the error be removed from our report and sent to Mr. Frank Fusco, Executive Director, South Carolina Budget and Control Board.

Payment of Invoices

The invoices in question are the procurement card transactions. Every effort is made to pay these items on time. However, with the conversion to SAP, we were told we could no longer use the procurement card object code. Every transaction on the bill has to be coded separately. As a result, the coding of the bill went from less than an hour to approximately three days. With other demands on the Finance staff time increasing, the bill has not been processed in time. After the audit, the Finance staff worked with the Comptroller General's Office to allow us to code the bill all on one line and later to do a journal entry to move the expense to the correct codes. The Comptroller General's Office has graciously allowed this process in order to get the invoice paid within the limits of the law. No further action is needed.

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