

**JOHN DE LA HOWE SCHOOL
MCCORMICK, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 3, 1998

The Honorable David M. Beasley, Governor
and
Board of Trustees
John de la Howe School
McCormick, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the John de la Howe School, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was four percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the School; and were paid in conformity with State laws and regulations and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

The Honorable David M. Beasley, Governor
and
Board of Trustees
John de la Howe School
September 3, 1998

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was one percent of the aggregate amount of all recorded payroll disbursements. Our findings as a result of these procedures are presented in Funding of Salary, Health and Dental Insurance, and Personnel Records in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all recorded operating transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The journal entries selected for testing were chosen randomly. The ratio of the total of the selected journal entries to the aggregate amount of all such recorded transactions was not readily determinable. The number of selected journal entries was 10 percent of the aggregate number of all such recorded transactions. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the School 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 the accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 1997, and tested selected reconciliations of balances in the School's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the School's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the School's accounting records or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the School's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures.

The Honorable David M. Beasley, Governor
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John de la Howe School
September 3, 1998

8. We reviewed the status of the deficiencies described in the findings 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, 1996, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the School and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the School. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the School and submitted to the State Comptroller General and reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
11. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1997, prepared by the School and submitted to the State Auditor and reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they 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, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through eleven of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit or review of the School's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

JOHN DE LA HOWE SCHOOL
 Schedule of Expenditures -
 Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$2,360,292	\$2,291,383	\$ 68,909
Employer Contributions	660,797	630,064	30,733
Other Operating	639,516	580,724	58,792
Permanent Improvements	-	-	-
Case Services	-	-	-
<i>Special Item:</i>			
Building Maintenance	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$3,660,605</u>	<u>\$3,502,171</u>	<u>\$158,434</u>

The accompanying notes are an integral part of this schedule.

JOHN DE LA HOWE SCHOOL
 Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 649,765	\$ 598,547	\$ 51,218
Employer Contributions	207,364	153,330	54,034
Other Operating	424,661	335,602	89,059
Permanent Improvements	726,731	645,542	81,189
Case Services	11,000	10,912	88
<i>Special Item:</i>			
Building Maintenance	<u>65,000</u>	<u>65,000</u>	<u>-</u>
Total Expenditures	<u>\$2,084,521</u>	<u>\$1,808,933</u>	<u>\$275,588</u>

The accompanying notes are an integral part of this schedule.

JOHN DE LA HOWE SCHOOL
 Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$3,010,057	\$2,889,930	\$120,127
Employer Contributions	868,161	783,394	84,767
Other Operating	1,064,177	916,326	147,851
Permanent Improvements	726,731	645,542	81,189
Case Services	11,000	10,912	88
<i>Special Item:</i>			
Building Maintenance	<u>65,000</u>	<u>65,000</u>	<u>-</u>
Total Expenditures	<u>\$5,745,126</u>	<u>\$5,311,104</u>	<u>\$434,022</u>

The accompanying notes are an integral part of this schedule.

JOHN DE LA HOWE SCHOOL

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The John de la Howe School is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the School. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

JOHN DE LA HOWE SCHOOL

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the School's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$3,580,995
State Budget and Control Board Allocations for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	<u>67,648</u>
Revised Appropriation - Legal Basis	3,648,643
Plus: 1996 Appropriation Brought Forward (1997 Proviso 72.44.)	<u>11,962</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$3,660,605</u>

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the School carried forward \$158,434 of unspent State General Fund appropriations from the current year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

In addition to the above State General Fund appropriations, the School received \$65,000 from the Capital Reserve Fund pursuant to June 1996 Joint Resolution R521, H4602 for building maintenance which is reported in the budget of the other budgeted funds category on Schedule 2.

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has an effective internal control structure.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

FUNDING OF SALARY

During our engagement, we compared the actual funding source(s) from which 25 payroll transactions were paid to the source(s) recorded on the Employee Profile forms to determine whether they were the same. We found that the School paid from State funds the salary of an employee who was hired effective September 9, 1996 and who terminated employment effective June 2, 1997. However, the individual's Employee Profile indicates her salary was approved to be paid from "other" funds, and our discussions with management confirmed that the School had approved the employee's salary to be paid from restricted (Education Improvement Act – EIA) funds. Consequently, the School overpaid personal services and related employer contributions from State funds by approximately \$18,000 and underpaid personal services and related employer contributions from restricted funds by the same amount during fiscal year 1997.

The State Budget and Control Board Office of Human Resources Personnel Information Reporting System Procedures Manual (page 1) states, in part, the following:

The Employee Profile is the primary form used for reporting and maintaining statewide position and employee information... All data reported on the Employee Profile is maintained on a master personnel file and is used for statistical analysis, projection of salary data for budget purposes and generation of various management reports. Therefore, it is critical that all information be reported on an accurate and timely basis.

We recommend that the School exercise greater care when identifying employee fund source(s). The School should implement procedures to ensure that payroll records, including those relating to fund source(s), are checked for accuracy and verified with appropriate documentation by someone other than the preparer and that each employee's semi-monthly pay is charged to the documented fund(s). We further recommend the School reimburse the General Fund of the State for the overpayments of personal services and related employer contributions incorrectly paid from State funds in fiscal year 1997.

HEALTH AND DENTAL INSURANCE

Although the School charges certain salaries to federal funds, the School did not allocate employer costs for health and dental insurance coverages to those funds. These costs were paid from the School's State General Fund appropriations, restricted funds, and earmarked funds.

Proviso 17F.1. of Part IB of the 1997 Appropriation Act states:

It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees.

We recommend that the School promptly correct its fiscal year 1997 payments of health and dental insurance coverages to comply with the 1997 Appropriation Act which requires the allocation of a proportionate share of each employer contribution cost to the fund from which the related personal services expenditures are paid. In addition, the School should establish procedures to ensure that all employer contribution costs are properly allocated in future periods.

PERSONNEL RECORDS

The School failed to complete annual Employee Performance Management System (EPMS) appraisals due during fiscal year 1997 for four of twenty-one employees included in our test of 25 payroll transactions. In fact, the personnel files for three of these employees did not contain any EPMS appraisals. In the prior engagement, we discussed with management of the School a similar exception regarding the failure to prepare all annual appraisals when due.

State Human Resources Regulation 19-704.02 A. states the following:

Each agency shall develop an Employee Performance Management System (EPMS) that shall function as an effective management tool within the agency and provide a sound process for the evaluation of the performance and productivity of its employees.

Further, State Human Resources Regulation 19-708.03 A. requires each agency to maintain copies of all annual performance appraisals in an employee's personnel file.

We again recommend that the School timely complete annual performance evaluations and maintain copies of all annual EPMS documents in each employee's personnel file.

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 School for the fiscal year ended June 30, 1996, and dated December 18, 1997. We determined that the School has taken adequate corrective action on each of the deficiencies.

MANAGEMENT'S RESPONSE

JOHN DE LA HOWE SCHOOL

October 21, 1998

The Honorable Edgar A. Vaughn, Jr., CPA
Office of State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Vaughn:

We have reviewed the preliminary draft copy of the report from your performance of the agreed upon procedure of the accounting records for fiscal year ending June 30, 1997. The response to the findings is as follows:

Funding of Salary

We will exercise greater care when identifying funding sources for newly hired employees. We have set up procedures for better accuracy and verification. We will take action to rectify any over payment from one fund to the other.

Health and Dental Insurance

We concur with the recommendation and will take prompt action to ensure that the employer cost of health and dental insurance is paid from the appropriate funding source (Federal, State or Other).

Personnel Records

We concur with the recommendation and will communicate with the supervisors the requirement of EPMS. We will provide training on EPMS if necessary.

We appreciate the professional manner in which your staff works to provide assistance on issues discovered during the audit period. If you need any additional information, please contact us.

Sincerely,

John C. Shiflet, Jr.
Superintendent

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