

**SOUTH CAROLINA
EDUCATION OVERSIGHT COMMITTEE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 30, 2008

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Education Oversight Committee
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Education Oversight Committee (the Committee), solely to assist you in evaluating the performance of the Committee for the fiscal year ended June 30, 2007, in the areas addressed. The Committee 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 all recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Committee's policies and procedures and State regulations to determine if revenue collection and retention or remittance were supported by law.
- We inspected all recorded receipts for fiscal months 12 and 13, fiscal year 2007 and fiscal month 01, fiscal year 2008 to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger 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 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 restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels of \$16,600 for the restricted fund and ± 10 percent.

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 Committee's policies and procedures and State regulations, were bona fide disbursements of the Committee, 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 restricted fund to ensure that expenditures were classified properly in the Committee's accounting records. The scope was based on agreed upon materiality levels of \$16,500 for the restricted 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 all new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Committee'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 restricted fund to ensure that expenditures were classified properly in the Committee's accounting records. The scope was based on agreed upon materiality levels of \$16,500 for the restricted fund and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the Committee's accounting records.

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

4. **Journal Entries and Operating Transfers**

- We inspected all recorded journal entries and 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 Committee's policies and procedures and State regulations.

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 records of the Committee 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 Committee for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Committee'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 Committee'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 Committee'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.

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Education Oversight Committee
April 30, 2008

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Committee 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 Compensated Absences in the Accountant's Comments section of this report.

9. **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 Committee resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Committee had taken corrective action.

Our findings as a result of these procedures are presented in Object Code and Compensated Absences 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 Governor and of the governing body and management of the South Carolina Education Oversight Committee 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.

COMPENSATED ABSENCES

The Committee is required to submit GAAP (Generally Accepted Accounting Principles) Closing Packages to the Comptroller General's Office at the end of each fiscal year. The requirements and instructions are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting...closing package forms...that are: "Accurate and completed in accordance with instructions." The Committee submitted an inaccurate compensated absences closing package for fiscal year 2007.

The Committee used an incorrect rate for an employee when calculating the annual leave liability. GAAP Manual Section 3.17 instructs preparers to calculate the salaries/wages portion of the annual leave liability by multiplying the employee's rate in effect at year-end (June 30) by each employee's actual unused annual leave balance at year-end. The Committee staff calculated the liability for one employee using a rate that was effective August 17, 2008. As a result, the Committee overstated its annual leave liability on its compensated absences closing package by \$685. [A similar finding was reported in the fiscal year 2006 report dated May 17, 2007.]

We recommend that the staff who complete and independently review closing packages carefully review source data to ensure that calculations follow instructions prescribed in the GAAP Manual.

OBJECT CODES

We found that the Committee misclassified several transactions as follows:

1. Disbursement voucher DV247 totaling \$11,448 for the purchase of ten new computers was recorded to object code 0399 - Other Supplies. It should have been recorded to object code 5004 – Data Processing Equipment (Non-Capitalized).
2. All 15 receipts listed on deposit numbers P0001, P0002, and P0003 were recorded to object code 2605 – Fees and Receipts – Other which states, “To designate revenue received from private individuals or organizations as part of the cost of building or construction projects.” These receipts were for conference registration fees and should have been recorded to object code 4850 – Miscellaneous Fee.
3. A refund for the overpayment of worker’s compensation insurance totaling \$16,487 was recorded to revenue object code 3902 – Other Reimbursements – State Agencies. It should have been recorded to object code 1340 – Worker’s Compensation Insurance as a reimbursement of the expenditure object code on the original voucher.
4. A refund of expenditures for the payment of telephone charges totaling \$40 was recorded to revenue object code 3902 – Other Reimbursements – State Agencies. It should have been recorded to object code 0216 – Telephone and Telegraph as a reimbursement of the expenditure object code on the original voucher.

[A similar finding was reported in the fiscal year 2006 report dated May 17, 2007.]

The STARS Manual requires computer purchases less than \$5,000 be classified under object code 5004 – Data Processing Equipment (Non-Capitalized); fees charged for service for which no specific code has been established be classified under object code 4850 – Miscellaneous Fee; and refunds of current fiscal year expenditures to be recorded as reimbursements of the original object code charged. If a refund relates to a prior year expenditure, it should be recorded to object code 3801 in accordance with the Comptroller General’s STARS Manual.

We recommend that the Committee ensure that staff preparing and reviewing transaction documents follow the policies and procedures established by the Comptroller General’s Office.

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 Committee for the fiscal year ended June 30, 2006, and dated May 17, 2007. We determined that the Committee has taken adequate corrective action on each of the findings except we have repeated the findings Compensated Absences and Object Code in Section A of this report.

MANAGEMENT'S RESPONSE



**SC EDUCATION
OVERSIGHT COMMITTEE**

Reporting facts. Measuring change. Promoting progress.

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May 21, 2008

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor 1401
Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

On behalf of the members and staff of the Education Oversight Committee (EOC) I thank you for the detailed audit of the Fiscal Year 2007 accounting transactions and records. Our staff aspires to adhere to State laws, rules or regulations for financial management; therefore, we are concerned about the errors discovered in the audit.

Our accounting office will provide adequate documentation when assigning object codes for disbursement vouchers and deposits. In cases where two or more object codes describe the transaction in question the respective processing unit (Comptroller General's Office or Treasure's Office) will be contacted to make the final determination. This process will be noted for future research and review. In compliance with GAAP Manual Section 3.17 the Compensated Absence Closing Package calculation will only include wages as of June 30. Where annual increases will be applied to all employee wages excluding the executive director's, whose wage increase is decided upon by committee approval in mid August.

Should you have other issues that we should discuss or remedy, please call upon me at your convenience.

Sincerely,

Jo Anne Anderson

c: Tracy Brice
Hanicia Graham
Wayne T. Sams, CPA

- Harold C. Stowe
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- Kristi V. Woodall
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Jo Anne Anderson
EXECUTIVE DIRECTOR

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.