

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

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 9, 1998

The Honorable Barbara S. Nielsen
State Superintendent of Education
South Carolina State Department of Education
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina State Department of Education, solely to assist you in evaluating the performance of the Department 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 one 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 Department; 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.

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 less than one percent of the aggregate amount of all recorded payroll disbursements. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and 100 percent of recorded appropriation 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 total of the selected journal entries was less than one percent of the aggregate amount of all such recorded transactions. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested 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 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 Department for the year ended June 30, 1997, and tested selected reconciliations of balances in the Department'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 Department'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 Department'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 Department'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.

8. We reviewed the status of the deficiencies described in the findings reported in the Auditor's Comments section of the State Auditor's Report on the Department 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 Department and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Department. 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 Department 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 Department and submitted to the State Auditor and relied on testwork performed during the Statewide Single Audit 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 controls 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 Department'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.

Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION
Schedule of Expenditures -
Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 20,923,922	\$ 20,037,107	\$ 886,815
Employer Contributions	7,258,211	6,626,228	631,983
Other Operating	19,642,854	18,643,205	999,649
Permanent Improvements	-	-	-
Allocations - Education			
Improvement Act of 1984	-	-	-
Allocations to School Districts	-	-	-
Allocations to State Agencies	-	-	-
Allocations to Other Entities	-	-	-
Aid to Counties	1,619,458	1,065,932	553,526
Aid to School Districts	1,288,639,351	1,288,148,783	490,568
Aid to State Agencies	711,461	700,435	11,026
Aid to Other Entities	496,966	496,966	-
Allocation to Governor's School for Science and Mathematics	9,183,150	4,155,399	5,027,751
Case Services	-	-	-
<i>Special Items:</i>			
Aid to School Districts -			
Fringe Equity	8,500,000	8,500,000	-
Other Operating Expenditures -			
Darlington Desegregation	500,000	-	500,000
Other Operating Expenditures -			
Instructional Materials	18,440,722	27,627,963	(9,187,241)
<i>Special Allocations to:</i>			
Handicapped - Profoundly			
Mentally	160,000	160,000	-
SC State - Felton Lab	204,000	204,000	-
SC Council on Holocaust	19,883	19,883	-
YMCA - Youth in Government	22,714	22,714	-
Archibald Rutledge Scholarship	19,144	19,144	-
Total Expenditures	<u>\$1,376,341,836</u>	<u>\$1,376,427,759</u>	<u>\$ (85,923)</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION

Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 9,285,325	\$ 6,273,664	\$ 3,011,661
Employer Contributions	2,246,916	1,481,702	765,214
Other Operating	34,599,720	27,356,379	7,243,341
Permanent Improvements	2,002,000	18,764	1,983,236
Allocations - Education			
Improvement Act of 1984	387,660,245	375,778,878	11,881,367
Allocations to School Districts	356,802,991	306,874,541	49,928,450
Allocations to State Agencies	12,834,997	6,545,777	6,289,220
Allocations to Other Entities	3,058,882	2,329,218	729,664
Aid to Counties	-	-	-
Aid to School Districts	-	-	-
Aid to State Agencies	-	-	-
Aid to Other Entities	-	-	-
Allocation to Governor's School for Science and Mathematics	948,336	414,994	533,342
Case Services	15,000	-	15,000
<i>Special Items:</i>			
Aid to School Districts -			
Fringe Equity	-	-	-
Other Operating Expenditures -			
Darlington Desegregation	-	-	-
Other Operating Expenditures -			
Instructional Materials	-	-	-
<i>Special Allocations to:</i>			
Handicapped - Profoundly			
Mentally	-	-	-
SC State - Felton Lab	-	-	-
SC Council on Holocaust	-	-	-
YMCA - Youth in Government	-	-	-
Archibald Rutledge Scholarship	-	-	-
Total Expenditures	<u>\$809,454,412</u>	<u>\$727,073,917</u>	<u>\$82,380,495</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION
Schedule of Expenditures -
Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 30,209,247	\$ 26,310,771	\$ 3,898,476
Employer Contributions	9,505,127	8,107,930	1,397,197
Other Operating	54,242,574	45,999,584	8,242,990
Permanent Improvements	2,002,000	18,764	1,983,236
Allocations - Education			
Improvement Act of 1984	387,660,245	375,778,878	11,881,367
Allocations to School Districts	356,802,991	306,874,541	49,928,450
Allocations to State Agencies	12,834,997	6,545,777	6,289,220
Allocations to Other Entities	3,058,882	2,329,218	729,664
Aid to Counties	1,619,458	1,065,932	553,526
Aid to School Districts	1,288,639,351	1,288,148,783	490,568
Aid to State Agencies	711,461	700,435	11,026
Aid to Other Entities	496,966	496,966	-
Allocation to Governor's School for Science and Mathematics	10,131,486	4,570,393	5,561,093
Case Services	15,000	-	15,000
<i>Special Items:</i>			
Aid to School Districts - Fringe Equity	8,500,000	8,500,000	-
Other Operating Expenditures - Darlington Desegregation	500,000	-	500,000
Other Operating Expenditures - Instructional Materials	18,440,722	27,627,963	(9,187,241)
<i>Special Allocations to:</i>			
Handicapped - Profoundly Mentally	160,000	160,000	-
SC State - Felton Lab	204,000	204,000	-
SC Council on Holocaust	19,883	19,883	-
YMCA - Youth in Government	22,714	22,714	-
Archibald Rutledge Scholarship	19,144	19,144	-
Total Expenditures	<u>\$2,185,796,248</u>	<u>\$2,103,501,676</u>	<u>\$82,294,572</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. 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.

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION

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 Department's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$1,356,283,948
State Budget and Control Board Allocations for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	1,430,169
Supplemental Appropriations from 1996 Surplus State Revenues for the Governor's School for Science and Mathematics:	
1997 Appropriation Act - Part V	25,625
1997 Appropriation Act - Part VI	5,000,000
Appropriation Transfer to Clemson University for Agricultural Education (Proviso 72.73.)	(800,638)
Appropriation Transfer to Department of Health and Environmental Control for Comprehensive Health Assessments (Proviso 19.8.)	<u>(94,658)</u>
Revised Appropriation - Legal Basis	1,361,844,446
Plus: 1996 Appropriation Brought Forward	<u>14,497,390</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$1,376,341,836</u>

The unexpended balance of the 1996 appropriations at fiscal year-end June 30, 1996, of \$7,049 for the Governor's School for Science and Mathematics was authorized by Proviso 19.14. of the 1996-1997 Appropriation Act to be brought forward to fiscal year 1997 to be spent pursuant to the direction of the Board of Trustees of the School. In addition, Proviso 72.44. of the 1996-1997 Appropriation Act authorizes each agency to carry forward unspent State General Fund appropriations from the current year into the next fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions for the current fiscal year. Agencies, which have separate General Fund carry-forward authority must exclude the amount carried forward by such separate authority from their bases for purposes of calculating the 10 percent carryforwards. Pursuant to this proviso, the Department brought forward \$3,490,341 from the prior fiscal year. In addition, Proviso 19.6. of the 1996-1997 Appropriation Act authorized the Department to carry forward unexpended funds for the settlement of the Darlington Desegregation lawsuit. Pursuant to this proviso, the Department brought forward

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

\$500,000. In addition, the Governor's School for Science and Mathematics brought forward the \$2,000,000 supplemental appropriation for Milliken Mill Property funding pursuant to the June 1995 Joint Resolution which authorized the school to carry forward the unspent balance at year end to succeeding fiscal years to be expended for the same purposes of architectural, engineering, and maintenance fees. Also, the Department brought forward \$8,500,000 for fringe equity distributions to school districts pursuant to Section 1 item (13) of Part III of the 1996-1997 Appropriation Act. In total, the Department brought forward \$14,497,390.

The unexpended balance of the 1997 regular operating appropriations at fiscal year-end June 30, 1997 of \$30,224 for the Governor's School for Science and Mathematics was authorized by Proviso 19.12. of the 1997-1998 Appropriation Act to be carried forward to fiscal year 1998 to be spent pursuant to the direction of the Board of Trustees of the School. In addition, Proviso 72.44. of the 1997-1998 Appropriation Act authorizes each agency to carry forward unspent State General Fund appropriations from the current year into the next fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority must exclude the amount carried forward by such separate authority from their bases for purposes of calculating the 10 percent carry forwards. Pursuant to this proviso, the Department carried forward \$3,577,121 to fiscal year 1998. Also, the Department carried forward \$500,000 for the settlement of the Darlington Desegregation lawsuit. The carry forward of these funds, which are to be used for instructional materials, is authorized by Proviso 19.5. of the 1997-1998 Appropriation Act. In addition, pursuant to Part VI of the 1996-1997 Appropriation Act, the Governor's School for Science and Mathematics carried forward \$5,000,000 from fiscal year 1995-1996 unobligated surplus State revenues. Total carry-forward to fiscal year 1998 was \$9,107,345.

Part III of the Appropriation Act for Fiscal Year 1997-1998 appropriated \$18,567,132 of the State General Fund surplus revenues from fiscal year 1996-1997 for the Department of Education. Of this amount, \$8,500,000 has been appropriated for Fringe Equity, \$1,450,000 for School Bus Maintenance and Parts, \$7,792,132 for Instructional Materials, \$200,000 for the C.R. Neal Learning Center, \$25,000 for the Challenger Learning Center, and \$600,000 for the Governor's School for the Arts. These funds will be received in fiscal year 1998.

SOUTH CAROLINA STATE DEPARTMENT OF EDUCATION

Notes to Schedules

June 30, 1997

NOTE 3 - EXPENDITURES PAID FROM FUNDS FOR ANOTHER FISCAL YEAR

The Department recorded \$3,554 of other operating expenditures and \$9,187,241 of instructional materials pertaining to fiscal year 1997 in the budgetary general fund category as payments in fiscal year 1998. The Department also recorded \$540,918 of other operating expenditures and \$59,409,594 of allocations pertaining to fiscal year 1997 in the other budgeted funds category as payments in fiscal year 1998. Adjusting entries were made to report these in the proper fiscal year and include them as expenditures on Schedules 1, 2, and 3. Adjusting entries were also made to remove payments for fiscal year 1996 expenditures of \$49,914,286 for the other budgeted funds category which had been recorded as 1997 expenditures. The Governor's School for Science and Mathematics recorded \$5,004 of other operating expenditures pertaining to fiscal year 1997 in the budgetary general fund category as payments in fiscal year 1998. Adjusting entries were made to report these in the proper fiscal year and include them as expenditures on Schedules 1 and 3. Adjusting entries were also made to remove Governor's School expenditures pertaining to fiscal year 1996 of \$2,530 and \$834 for the budgetary general fund and the other budgeted funds categories from recorded expenditures.

State law requires agencies to expend budgeted funds in strict accordance with the line-items in the Appropriation Act and authorizing legislation in the year for which appropriated unless otherwise authorized.

Proviso 19.32. of the 1997 Appropriation Act authorized the Department to expend federal and earmarked funds (not including state or EIA funds) in the current fiscal year for expenditures incurred in the prior year. Such transactions are budgeted in the other budgeted funds category. Similarly, Proviso 19.27. of the 1998 Appropriation Act authorizes the Department to spend the specified 1998 funds for 1997 expenditures from those fund sources. This proviso also authorizes the Department to use appropriated funds from fiscal year 1998 to pay for textbooks shipped in the fourth quarter of the prior fiscal year. These transactions are budgeted in the budgetary general fund category.

ACCOUNTANT'S COMMENTS - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Auditor's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 1996, and dated April 1, 1997. We determined that the Department has taken adequate corrective action on each of the findings.