

**SOUTH CAROLINA STATE BOARD FOR
TECHNICAL AND COMPREHENSIVE EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 20, 2008

The Honorable Mark Sanford, Governor
and
Members of the Board
South Carolina State Board for Technical
and Comprehensive 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 State Board for Technical and Comprehensive Education (the Board), solely to assist you in evaluating the performance of the Board for the fiscal year ended June 30, 2007, in the areas addressed. The Board'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 and to determine if revenue collection and retention or remittance were supported by law.
- We inspected all recorded receipts pertaining to 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 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 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 (\$7,800 – general fund, \$58,400 – earmarked fund, \$216,900 – restricted fund, and \$7,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Coding of Transactions 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 Board, 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 (\$370,100 – general fund, \$28,600 – earmarked fund, \$208,100 – restricted fund, and \$8,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Coding of Transactions 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.

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- 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 (\$370,100 – general fund, \$28,600 – earmarked fund, \$208,100 – restricted fund, and \$8,400 – federal 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 agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Timesheets 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 journal entries selected were chosen randomly. Our finding as a result of these procedures is presented in Journal Entries 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 Board 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 Board for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Board'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 Board'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 Board'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 Board's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in Coding of Transactions in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Board 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 Coding of Transactions 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, 2007, prepared by the Board 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 and if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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10. **Status of Prior Finding**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Board resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Board had taken corrective action.

Our finding as a result of the procedures is presented in Coding of Transactions 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 State Board for Technical and Comprehensive 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.

CODING OF TRANSACTIONS

During our testing, we noted that the Board improperly coded several receipt and expenditure transactions. The discrepancies noted follow:

1. Federal grant revenues passed through from the South Carolina Department of Education were charged to object code 2822 instead of object code 2805.
2. Capitalizable equipment costing \$19,995 was recorded to object code 0307 instead of object code 0607. Expenditures for supplies were recorded to object code 0607 instead of the appropriate 0300 series object codes.
3. A voucher dated July 12, 2007 relating to capital project expenditures was recorded to subfund 3043 (capital improvement bonds) instead of 3603 (capital reserve fund). The error was discovered and the original transaction was cancelled on July 25, 2007. A new voucher was issued on August 22, 2007 using the correct subfund however this voucher was paid from fiscal year 2008 appropriations.

A similar finding was noted in the prior State Auditor's Report.

The Comptroller General's Policies and Procedures Manual (STARS Manual) defines the object codes described above as follows:

0300 - Supplies and Materials: To include all expenditures for articles or substances which have specific uses and when applied to their respective uses are subject to such changes that will consume them or render them unfit for continuous and permanent use. Transportation charges and use tax paid on supplies are a part of the cost of supplies and will be charged and classified as such. Single items over \$1,000 but not over \$5,000 will be charged to non-capitalizable equipment (5000) except for stage properties. Single items over \$5,000 will be charged to capitalizable equipment (0600) except for stage properties.

- 0307 - Educational Supplies: Expenditures for supplies of an educational or recreational purpose used in schools, parks, playgrounds, or other educational or recreation centers.
- 0607 - Educational Equipment (Capitalizable): Expenditures over \$5,000 per item for equipment for educational purposes used in schools, parks, playgrounds, or other educational or recreational centers. This is not to include ordinary equipment even though purchased for educational purposes.
- 2822 - Federal Operating Grants - Restricted: To designate federal operating grant funds that are restricted by the grantor for use in a particular function.
- 2805 - Federal Grant Sub-Contract State Agencies: To designate all federal funds received from other State agencies on a sub-grant or sub-contract basis.

General Proviso 72.2 of the fiscal year 2008 Appropriations 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 Fund, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2007-08, and for other purposes specifically designated.”

We again recommend that the personnel responsible for coding accounting transactions and those who independently review deposit and voucher packages exercise due care to ensure appropriate coding of subfund and of object codes.

TIMESHEETS

During our test of new hires, we noted six instances in which employee timesheets were not submitted by the Board's regional offices in a timely manner. As a result, the timesheets were not processed in the appropriate pay period. In order to select a sample for this test, we asked the Board to prepare a list of new hires for fiscal year 2007. We determined that the population of new hires was not complete because the list was prepared based on employee pay periods. Some of the pay periods differed from the actual hire dates because the employee's first timesheet was not submitted timely to be processed in the appropriate pay period.

Section 8-11-35 of the South Carolina Code of Laws states, "appropriations for compensation of state employees must be paid in twice-monthly installments to the person holding the position. To provide a regular and permanent schedule for payment of employees, the payroll period begins on 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 thereafter on a twice-monthly schedule as established by the State Budget and Control Board..."

We recommend that the Board carefully follow the payroll schedule established by State law. Also, we recommend that the Board establish policies and procedures to ensure timesheets are received from the regional offices in a timely manner to ensure adherence with the State's payroll schedule. Additionally, we recommend the Board prepare its list of new hires using the employee's actual hire date as documented in the personnel files.

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.

JOURNAL ENTRIES

We tested a sample of 26 journal entries recorded in the Board's accounting system and found that three were not supported by signed hard copy journal vouchers. While supporting documentation included hand written dates and journal entry numbers, there was no evidence of an independent review for accuracy or that the transaction was authorized by the appropriate official.

A strong system of internal controls ensures that accounting transactions are supported by source documents which provide evidence of a proper review for accuracy and authorization.

We recommend that the Board establish appropriate control procedures to ensure that input forms are prepared and provide documentation of an independent review and approval.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We tested the Board's fiscal year 2007 Schedule of Federal Financial Assistance (SFFA) and noted the following:

1. Expenditures and receipts reported on the SFFA did not include fiscal month 13 transactions. Board staff detected the error and submitted a revised SFFA to the State Auditor's Office in December 2007 which was after the August 17, 2007 submission deadline.
2. The program title for one of the programs listed on the SFFA did not agree to the CFDA Catalog.

The Office of the State Auditor Letter of Instruction states "Program names should be the same as those listed in the Catalog of Federal Domestic Assistance" and "The expenditure column should show only federal expenditures for the current state fiscal year (including fiscal month 13)." In addition, strong internal controls require review procedures to be performed in a timely manner.

We recommend the Board ensure that individuals who prepare and review the SFFA are knowledgeable of the Office of the State Auditor Letter of Instruction. In addition, we recommend the Board implement procedures to ensure an effective and timely review of the SFFA prior to submission to the Office of the State Auditor.

SECTION C - STATUS OF PRIOR FINDING

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 Board for the fiscal year ended June 30, 2006, and dated August 30, 2007. We determined that the Board has not taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE

MANAGEMENT'S RESPONSE

Below are management's responses regarding the Accountant's Comments included in the report resulting from performance of agreed-upon-procedures to the accounting records of the South Carolina State Board for Technical and Comprehensive Education for the fiscal year ended June 30, 2007.

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

CODING OF TRANSACTIONS

1. The first FY 06-07 Federal grant reimbursement from the South Carolina Department of Education was incorrectly coded as object code 2822 instead of object code 2805. The remaining five reimbursements received in FY 06-07 were correctly coded as object code 2805. We agree that these Federal grant revenues should be recorded as object code 2805, and we will exercise greater care to ensure that all Federal revenue is properly coded.
2. We agree that capitalizable equipment costing \$19,995 was recorded to object code 0307 instead of object code 0607 and that expenditures for supplies were recorded to object code 0607 instead of the appropriate 0300 series object codes. We will exercise greater care to ensure that expenditures are properly coded.
3. A voucher dated July 12, 2007 relating to capital project expenditures for one of the technical colleges was recorded to subfund 3043 (capital improvement bonds) instead of 3603 (capital reserve fund). The error was discovered, and the original transaction was cancelled on July 25, 2007. A new voucher was issued on August 22, 2007 (FY 07-08) using the correct subfund.

When the error was discovered, it was too late to process a corrected payment in fiscal year 06-07. As we discussed during the agreed-upon-procedures engagement, each year we provide to the Office of the Comptroller General a summary of all payments made by the State Board to the technical colleges. Comptroller General staff use the summary schedule to eliminate the activity between the State Board and the colleges. The colleges' audited financial statements is the source for college expenses recorded in the State's Comprehensive Annual Financial Report (CAFR). Therefore, recording the reimbursement to the college in fiscal year 07-08 does not cause a misstatement in the State's financial statements. Further, Section 3 of Act No. 179 of 2005, which provided the funds for the capital project, states: "Unexpended funds appropriated pursuant to this joint resolution may be carried forward to succeeding fiscal years and expended for the same purpose."

Although the recording of the disbursement to the college in the succeeding fiscal year did not cause any misstatements on the State's CAFR, we will exercise greater care to ensure that capital project disbursements are properly recorded.

TIMESHEETS

The auditors noted six instances in which timesheets for temporary employee were not submitted by the regional offices in a timely manner, which prevented timesheets from being processed in the appropriate pay period. Also, the population of new hires was not complete, because the list was prepared based on employee pay periods rather than actual hire dates.

We are constantly reminding regional offices to submit timesheets timely and are looking to improve the payroll process for temporary employees. On March 27, 2008, System Office finance and human resources staff conducted training for the administrative assistants in the regional offices. The training included an emphasis on the payroll process and the importance of timely submission of timesheets. We will continue to review and enhance our policies and procedures to ensure timesheets are received from the regional offices in a timely manner. Also, we have recently implemented new procedures that will allow us to prepare a list of new hires using the employee's actual hire date as documented in the personnel files.

SECTION B – OTHER WEAKNESSES

JOURNAL ENTRIES

We concur with the finding regarding the three journal entries that were not supported by signed hard copy journal vouchers. Procedures are in place to subject all journal vouchers to an independent review for accuracy and to require authorization by an appropriate official, and we will monitor more closely to ensure that the established procedures are actually in operation.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We will exercise greater care to ensure that the program names on the Schedule of Federal Financial Assistance (SEFA) are exactly as listed in the Catalog of Federal Domestic Assistance and that the expenditures on the SEFA agree to the expenditures on our books, including transactions recorded in the thirteenth month.

SECTION C - STATUS OF PRIOR FINDING

The agreed-upon-procedures engagement of fiscal year 05-06 was completed in August 2007, after the books were already closed for fiscal year 06-07. Therefore, there was no opportunity to implement corrective action on the accountant's comments for fiscal year 05-06 until fiscal year 07-08.

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