

**SOUTH CAROLINA  
STATE DEPARTMENT OF EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2002**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 21, 2003

The Honorable Inez M. Tenenbaum  
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 (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, in the areas addressed. The Department'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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

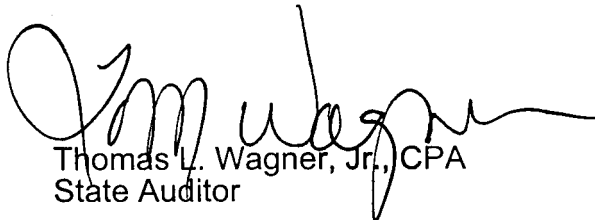
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Overtime Policy and Dual Employment in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all recorded operating and interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual journal entry transactions 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 internal controls over the tested transactions were adequate. The transactions 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, 2002, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 Department'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 Department's accounting records and/or in STARS. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. 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 2002. Our findings as a result of these procedures are presented in Overtime Policy and Dual Employment in the Accountant's Comments section of this report.
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 Department resulting from our engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Department and submitted to the State Comptroller General. We 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.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, prepared by the Department and submitted to the State Auditor. We 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.

The Honorable Inez M. Tenenbaum  
State Superintendent of Education  
South Carolina State Department of Education  
May 21, 2003

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 areas, 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 State Superintendent of Education and of the management of the South Carolina State Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA  
State Auditor

**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 internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components 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 effective internal controls.

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



## **OVERTIME POLICY**

The Department did not request approval for its overtime policy which became effective October 1, 1996 from the State Budget and Control Board – Office of Human Resources (OHR).

Regulation 19-707.02 of the State Human Resources Regulations states that the Office of Human Resources must review and approve each agency's overtime policy.

The last approval received by the Department is dated August 19, 1991. The August 19, 1991 memo approving the Department's overtime policy stated: "In the future, should you determine that further revisions [to the overtime policy] are necessary, they would need to be submitted to our office for review and approval".

We recommend the Department submit a request to OHR to approve the policy adopted October 1, 1996. In addition, we recommend the Department establish and implement procedures to ensure that future revisions are submitted to OHR in accordance with regulation 19-707.02.

## **DUAL EMPLOYMENT**

Three of the dually employed individuals tested during the test of new hires were not paid in a timely manner. Two of the individuals received their first paychecks approximately two and one-half months after beginning employment, and the other received her first paycheck approximately eight months after her employment began. Additionally, five of the dually employed personnel tested during the test of employees who terminated employment with the Department were not removed from the payroll system in a timely manner. These persons remained on the payroll system until August 16, 2001 even though they had not performed services for the Department for approximately one to eight years prior to that date.

According to discussions with personnel at the Department, dually employed individuals are not always paid and removed from the payroll system in a timely manner because the necessary paperwork is not submitted to the payroll department timely.

Proviso 72.23. (GP: Dual Employment) of the fiscal year 2002 Appropriations Act states the following:

An employee who is approved for dual employment must be paid in a timely manner. The secondary agency is required to make payment of funds approved for and earned under dual employment within forty-five days of the beginning of the employment.

State Human Resources Regulations 19-713 provides additional guidelines for dual employment. Those regulations state that 'dual employment shall be limited in duration to the specific time frame approved which cannot exceed 12 months'.

We recommend the Department review its policies and procedures relating to dual employment. Procedures should be established and implemented to ensure that applicable laws and regulations are complied with.

## **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 South Carolina State Department of Education for the fiscal year ended June 30, 2001, and dated June 18, 2002. We determined that the Department has taken adequate corrective action on each of the findings.

## **MANAGEMENT'S RESPONSE**



STATE OF SOUTH CAROLINA  
DEPARTMENT OF EDUCATION

INEZ MOORE TENENBAUM  
STATE SUPERINTENDENT OF EDUCATION

August 25, 2003

Mr. Thomas L. Wagner, Jr.  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Tom:

I have reviewed the preliminary draft copy of the report resulting from our performance of agreed-upon procedures to the accounting records of the Department of Education and authorize you to release the report. Your audit team has been very thorough in the conduct of the audit.

Your recommendations will be implemented. The overtime policy has been submitted to the State Budget and Control Board for approval. I am also requesting that Elmer Whitten review the policies and procedures for dual employment and implement necessary changes to ensure compliance with applicable laws and regulations.

Thank you for your assistance and cooperation in evaluating the performance of the Department.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Inez".

Inez M. Tenenbaum  
State Superintendent of Education

IMT/km

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