

John De La Howe School
McCormick, South Carolina
Independent Accountants' Report on
Applying Agreed-Upon Procedures
for the year ended June 30, 2007

State of South Carolina



Office of the State Auditor

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June 25, 2008

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
John de la Howe School
McCormick, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the John de la Howe School for the fiscal year ended June 30, 2007, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Board of Trustees and management of John De La Howe School (the "School") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2007, in the areas addressed. The School'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 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations.
- We inspected 10 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 remittances were supported by law.

- 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 earmarked, restricted and federal funds to ensure that revenue was classified properly in the School's accounting records. The scope was based on agreed-upon materiality levels (\$3,800 – earmarked fund, \$6,900 – restricted fund, and \$3,600 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations, were bona fide disbursements of the School 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 10 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 School's accounting records. The scope was based on agreed-upon materiality levels (\$35,000 – general fund, \$3,800 – earmarked fund, \$6,900 – restricted fund, and \$3,600 – federal fund) and +/- 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected 25 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 School's policies and procedures and State regulations.

- We inspected 5 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 5 selected new employees and 5 who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the School'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 School's accounting records. The scope was based on agreed-upon materiality levels (\$35,000 – general fund, \$3,800 – earmarked fund, \$6,900 – restricted fund, and \$3,600 – federal fund) and +/- 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of +/- 5 percent to ensure that payroll expenditures were classified properly in the School's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of those procedures is presented in Section A in the Accountants' Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected 5 selected recorded journal entries, 5 operating transfers, and 5 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 School's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. 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 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 selected entries were processed in accordance with the School's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained monthly reconciliations prepared by the School for the year ended June 30, 2007, and inspected selected reconciliations of balances in the School'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 School'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 School's accounting records and/or in STARS.

The reconciliations selected were chosen haphazardly. Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

7. **Appropriation Act**

- We inspected School documents, observed processes, and/or made inquiries of School personnel to determine the School's compliance with Appropriation Act general and School specific provisos.

Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

8. Closing Packages

- We obtained copies of closing packages as of and for the year ended June 30, 2007, prepared by the School 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 work papers and accounting records.

Our finding as a result of these procedures is presented in Section A in the Accountants' 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 School 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 work papers and accounting records.

Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

10. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on the School resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the School had taken corrective action.

Our findings as a result of these procedures are presented in Section C in the Accountants' 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, the Board of Trustees, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
May 22, 2008

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

The procedures agreed to 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 each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

Cash Receipts and Revenue – Incorrect Object Code

Cash receipt 5624 (deposit #RV67) in the amount of \$497.80 was a reimbursement of expenditures for payment of utilities. The receipt was incorrectly recorded to revenue object code 7802 - Sale of Goods. Due to the nature of this receipt being a reimbursement of expenditures, expenditure object codes that were used for the original expenditure should have been used to record reimbursement of funds. The receipt should have been recorded to expenditure object code 2307 – Electricity.

The effect of the error was an overstatement of revenue and expenditures and a violation of the STARS Manual. STARS Manual Section 2.1.6.10 defines the object codes to correctly classify revenue and Section 2.1.6.20 defines the object codes to correctly classify expenditures. We recommend that the School's management carefully review their receipts in order to ensure that the correct object codes are being used to record reimbursement of expenditures.

Lateness of Compensated Absences Closing Package

The GAAP Closing Procedures Manual instructions for the Compensated Absences Closing Package require the closing package be submitted to the Office of the Comptroller General no later than July 31, 2007. During our testing of closing packages, we discovered that the Compensated Absences Closing Package was submitted to the Office of the Comptroller General on August 6, 2007 and therefore was not completed in a timely manner. We recommend that the School's management make a better effort to meet closing package deadlines as prescribed by the South Carolina Office of the Comptroller General.

Reconciliations

During the testing of monthly reconciliations for cash, revenues, and expenditures we noted the following exceptions:

- The August 2006 (fiscal month 2) monthly reconciliations for cash, revenues, and expenditures were not signed and dated by the preparer or the reviewer.
- The September, November, and December 2006 and January, February, and March 2007 (fiscal months 3, 5, 6, 7, 8, and 9) monthly reconciliations for cash, revenues, and expenditures were not prepared and reviewed until May 2007. The October 2006 (fiscal month 4) monthly reconciliations for cash, revenues, and expenditures were not prepared and reviewed until June 2007.

We recommend the School perform monthly reconciliations between its accounting records and the balances recorded on STARS reports in a timely manner. Upon completion, the preparer should sign and date the reconciliations as record of date prepared. Upon completion of review of the reconciliations, the reviewer should sign and date reconciliations as record of date reviewed. We recommend that all reconciliations be prepared and reviewed within thirty days of the month end for which the reconciliations are prepared.

Payroll – Leave Payout Improperly Calculated

South Carolina Code of Laws Section 8-11-30 states that: “It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employ of the State to issue vouchers, checks or otherwise pay salaries of monies that are not due to State employees of any department of the State.” We noted that the School overpaid annual leave to two employees who terminated during the year. One terminated employee was overpaid \$166 and one was overpaid \$50.75. These are violations of the South Carolina Code of Laws. We recommend that the School review the Employee Leave Report for terminating employees before paying out annual leave.

SECTION B - OTHER COMMENTS

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

Schedule of Federal Financial Assistance

The schedule of federal financial assistance (the “Schedule”) was not submitted properly. The schedule did not match the Comptroller General’s STARS system as of June 30, 2007. The Schedule did not reconcile to the Comptroller General’s STARS system Trial Balance by Subfund, Project, and GLA CSA 467 report subtotals at the project number and phase code level for any of the federal projects. This was due to the fact that the School’s general ledger had not been reconciled to the Comptroller General’s Trial Balance by Subfund, Project, and GLA CSA 467 report at the time of preparation.

We recommend that the School follow the State Auditor’s instructions in preparing the schedule to ensure that it is submitted properly. In addition, we recommend that the School have a review process to detect errors.

Segregation of Duties

When reviewing the internal controls for the Information Technology (“IT”) department, we noted the department consists of only one person that has complete control of many of the responsibilities essential for the smooth and efficient operations of the School’s IT function.

The School’s current budget does not allow for an adequately staffed IT department. Inadequate segregation of duties increases the potential risk of loss in the event of the IT Manager’s incapacity or leaving the employment of the School. Risk of fraud is also significantly higher without proper segregation of duties.

We recommend that the School ensure continuity of its operations through a better segregation of duties in this critical area. Providing a mechanism that allows for other employees to back up one another can be a very effective means of accomplishing this objective.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on the School for the fiscal year ended June 30, 2006, and dated May 24, 2007. The following is the status of prior year findings:

Prior year Finding:

Status:

Untimely Deposits of Revenues
Reporting on Campus Residences
Schedule of Federal Financial Assistance
Segregation of Duties in IT Department

School has taken adequate corrective action
Similar finding in Section A of current year report
Similar finding in Section B of current year report
Similar finding in Section B of current year report

MANAGEMENT'S RESPONSE



John de la Howe School

South Carolina's Home for Children Mark S. Williamson, MBA

Superintendent

June 24, 2008

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Dear Mr. Gilbert:

Attached are responses to the procedures and the associated findings as noted by the Certified Accounting Firm of Scott McElveen, L.L.P. as they relate to the accounting practices of John de la Howe School.

1. Cash Receipts and Revenue – Incorrect Object Code:

The agency's accountant was on medical leave, the deposit was prepared by someone other than the accountant. The staff incorrectly recorded the deposit as revenue rather than as a reimbursement. This reimbursement is received monthly and was recorded incorrectly once during the fiscal year.

2. Lateness of Compensated Absences Closing Package:

The Compensated Absences Closing Package was completed before the due date, however, the Superintendent was on vacation and not available to sign.

3. Reconciliations:

Monthly reconciliations were not being prepared by the fiscal tech on a timely basis. This was not realized by the accountant until May and immediately the fiscal tech was instructed to complete monthly reconciliations. This was an oversight and the agency will work with the recommendations of completing reconciliations within 30 days of the month's end.

4. Payroll – Leave Payout Improperly Calculated:

In reference to the overpayments, we attempted to recoup this money after we discovered the overpayment. Letters were sent to the former employees stating that overpayments were made and asking for the return of the money.

5. Schedule of Federal Financial Assistance:

Amounts reported on the Schedule of Federal Financial Assistance were actual expenditures and receipts. A reconciliation of the 467 report was done for FM13. There are numerous obsolete grants on the Comptroller General's 467 report that need to be removed. Spoke with someone at the Comptroller General's office and was informed that they are in the process of cleaning up this report. The agency will begin reconciling the 467 report on a monthly basis.

6. Segregation of Duties:

The agency continues to realize the potential risk we face due to the lack of segregation of duties in the Information Technology (IT) Department; however, our current budget still does not afford us the opportunity to hire other staff. We have, however, implemented a knowledge transfer plan. We have trained a current staff to perform some IT duties.

Please feel free to contact us if you have questions. I may be reached at (864) 391-0418.

Sincerely,



Mary H. Cartledge
Director of Business Operations