

John De La Howe School
Independent Accountants' Report on
Applying Agreed-Upon Procedures
for the year ended June 30, 2006

State of South Carolina



Office of the State Auditor

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June 28, 2007

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, 2006, 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., CPA
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, 2006, 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 randomly 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 8 randomly selected recorded receipts before and after year-end 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 general, 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 (\$32,000 – general fund, \$4,500 – earmarked fund, \$6,900 – restricted fund, and \$3,900 – federal fund) and +/- 10 percent.

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 randomly 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; and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 randomly selected recorded non-payroll disbursements before and after year-end 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 (\$32,000 – general fund, \$4,500 – earmarked fund, \$6,900 – restricted fund, and \$3,900 – federal fund) and +/- 10 percent.

We found no exceptions as a result of the procedures.

3. Payroll Disbursements and Expenditures

- We inspected 25 randomly 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 randomly 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 randomly selected new employees and 5 randomly selected individuals 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 (\$32,000 – general fund, \$4,500 – earmarked fund, \$6,900 – restricted fund, and \$3,900 – 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.

We found no exceptions as a result of the procedures.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 5 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 individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained all of the monthly reconciliations prepared by the School for the year ended June 30, 2006, and inspected selected reconciliations of balances in the School's accounting records to those in STARS as reflected in 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 individual reconciliations selected were chosen judgmentally. We found no exceptions as a result of the procedures.

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 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, 2006, 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 workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the Schedule of Federal Financial Assistance for the year ended June 30, 2006, 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 workpapers 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, 2003, to determine if the School had taken corrective action. We applied no procedures to the School's accounting records and internal controls for the years ended June 30, 2004 and 2005.

We found no exceptions as a result of these procedures.

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.

May 24, 2007
Columbia, South Carolina

ACCOUNTANTS' 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 School 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.

Untimely Deposit of Receipts

Section 72.1 of the fiscal year 2005-06 Appropriation Act requires revenues to be remitted to the State Treasurer at least once each week, when practical. Cash is submitted to School personnel, who are responsible for depositing the cash in the bank within seven days of receipt. In one out of twenty-five deposits selected, the personnel held the cash for more than seven days prior to deposit. Receipt #5506 was received on January 25, 2006 for \$644.05 and was deposited to the bank on February 14, 2006. In this instance, state law was violated, and the State missed out on the opportunity to earn interest on the receipt and put this amount of cash at risk of being lost or stolen.

We recommend all School personnel who handle cash receipts be provided training to ensure that they are aware of current State law pertaining to the deposit of cash receipts. In addition, the School should develop and implement procedures to ensure that cash receipts are deposited timely as defined by Section 72.1 of the Appropriation Act.

Reporting of On Campus Residences

The School does not report fair market rental value of residences furnished to School employees as required by the Appropriation Act. Section 72.19 of the Appropriation Act states, all agencies furnishing residences to state employees must report the fair market rental value of the residence to the Agency Head Salary Commission, and the Division of Budget and Analysis by October 1 of each fiscal year.

We recommend the School's management obtain an understanding of the State laws related to reporting fair market rental value of residences provided to employees, and implement procedures to ensure the proper reports are filed with the appropriate agency in a timely manner.

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 had footing and cross-footing errors. In addition, the Schedule did not match the Comptroller General's STARS system as of June 30, 2006. 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 & 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.

SECTION B - OTHER COMMENTS (continued)

Schedule of Federal Financial Assistance (continued)

We recommend that the School follow the State Auditor's instructions on how to prepare the Schedule to ensure that it is submitted properly. In addition, we recommend that the School have a review process to detect errors. We also recommend that the School reconcile the accounts every month to ensure that the general ledger is in agreement with the Comptroller General's reports. When the final report is completed, the School should retain all supporting documentation with a copy of the final report.

Segregation of Duties

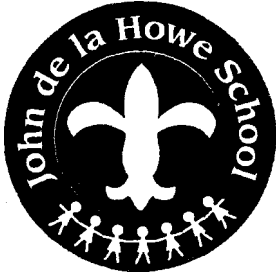
When reviewing the internal controls for the Information Technology ("IT") department, we noted the department consists of only one person that has complete control of many of the responsibilities essential for the smooth and efficient operations of the School's IT.

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, 2003, and dated April 30, 2004. We applied no procedures to the School's accounting records and internal controls for the years ended June 30, 2004 and 2005. We determined that the School has taken adequate corrective action on the only finding, Approval of Reconciliations.



John de la Howe School

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

June 27, 2007

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. Untimely Deposit of Receipts:

It appears that the date from receipt #5505 was picked up erroneously and carried to the next receipt (#5506). Receipt #5505 is for monies received in January and receipt #5506 is February monies, therefore this money was turned in February and the receipt was dated incorrectly. Will continue to be aware of the seven-day deposit requirement.

2. Reporting of On Campus Residences:

The agency will revisit the Appropriation Act (72.19) in order that we might be in compliance with the Act in reporting fair market rental value of residences provided to employees.

3. Schedule of Federal Financial Assistance

The amount of revenue and expenditures reported on the schedule for FY 2005-2006 were correct. The CSA 467 report contains old project information making it very difficult to reconcile. Federal projects retain the same project number from year to year, but the phase codes change by funding year causing a buildup of projects on the report. There are numerous projects needing to be closed and deleted from this report. Will contact appropriate CG staff and process necessary paperwork to clean up report.

4. Segregation of Duties

The agency realizes the potential risk we face due to the lack of segregation of duties in the Information Technology (IT) department, however, the current budget does not afford us the opportunity to hire other staff. We have, however, implemented a knowledge transfer plan. We have current staff that will be trained to perform some IT duties.

Please feel free to contact us if you have questions. I may be reached at (864) 391-2131 ext. 118.

Sincerely,



Mary H. Cartledge
Director of Business Operations