

State of South Carolina

Office of the State Auditor

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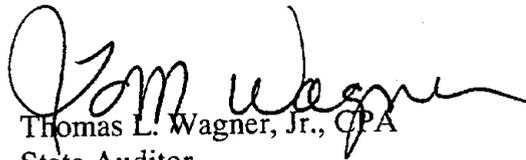
May 19, 2004

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

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of John de la Howe for the fiscal year ended June 30, 2003, 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,

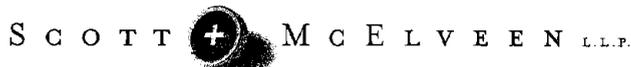
  
Thomas L. Wagner, Jr., CPA  
State Auditor

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John de la Howe School  
Independent Auditors' Report on  
Applying Agreed-Upon Procedures  
*for the year ended June 30, 2003*

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## Independent Auditors' Report on Applying Agreed-Upon Procedures

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The Honorable Mark Sanford, Governor  
and Board of Trustees  
John de la Howe School  
McCormick, 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, solely to assist you in evaluating the accounting records of the School for the fiscal year ended June 30, 2003, 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. We selected certain 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 selected certain 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, using estimations and other procedures, made inquiries regarding the reasonableness of collected and recorded amounts by revenue account. The individual transactions were chosen randomly. We found no exceptions as a result of the procedures.
  
2. We selected certain recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, 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; and if internal controls over the selected disbursement transactions were adequate. We also selected certain 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 and made inquiries regarding the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

CERTIFIED PUBLIC ACCOUNTANTS

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3. We selected certain 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 selected certain 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 selected certain 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; (and) 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 were chosen randomly. We found no exceptions as a result of the procedures.
4. We selected certain recorded journal entries, operating transfers, and 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 transactions selected were chosen randomly. We found no exceptions as a result of the procedures.
5. We selected certain 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 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 monthly reconciliations prepared by the School for the year ended June 30, 2003 and determined that the reconciliations were signed and dated by both the preparer and reviewer and that the reconciliations were dated at a reasonable time after month end. Our finding as a result of these procedures is presented in the Auditors' Comments section of this report.
7. We made inquiries regarding the School's compliance with applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for the year ended June 30, 2003. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the School and submitted to the 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.

9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2003, prepared by the School and submitted to the South Carolina Office of the State Auditor (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.

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 Governor and of the Board of Trustees and management of John de la Howe School and the management of 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  
April 30, 2004

## **Section A – Finding**

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 internal controls. A material weakness is a condition in which the design or operation of one 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 condition described below has been identified as weakness subject to correction or improvement but it is not considered material weakness or violations of State Laws, Rules, or Regulations.

### **Approval of Reconciliations**

During our procedures related to the School's reconciliations of its records to the Comptroller General's records, we found that the reconciliations for fiscal months 8 through 13 were not signed and dated as having been reviewed by the appropriate supervisory personnel. Upon inquiry of the School's management, we learned that there was a shortage of accounting personnel during that time of the year and therefore there was no one available to perform the review. Even though the reconciliations were not reviewed, they appeared to be properly prepared.

The reconciliation of the School's records to the Comptroller General's is a critical control in maintaining the integrity of the School's and the State's accounting records. Without the proper performance and approval of this process, errors could exist in the School's records or the Comptroller General's records and not be detected. Even in times of personnel shortage, the School's management should find a way to perform all necessary reviews and approvals. We recommend that when this situation occurs in the future, that the personnel responsible for preparing the reconciliations notify management that the reconciliations are not being reviewed so that appropriate action may be taken.

## **Section B – Status of Prior Findings**

There were no prior findings for the year ended June 30, 1999, the last year for which an agreed-upon procedure report was issued for John de la Howe School.