

**SOUTH CAROLINA DEPARTMENT OF EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2007**

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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 13, 2008

The Honorable Jim Rex  
State Superintendent of Education  
South Carolina Department of Education  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the Department of Education (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2007, 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. **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.
- We inspected 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 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 (\$12,800 – general fund, \$163,600 – earmarked fund, \$1,064,100 – restricted fund, and \$1,059,200 – federal fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Timely Deposit and Object Codes 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 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.
- 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 (\$3,045,100 – general fund, \$149,700 – earmarked fund, \$1,084,700 – restricted fund, and \$1,055,800 – federal fund) and  $\pm 10$  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 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.
- 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 (\$3,045,100 – general fund, \$149,700 – earmarked fund, \$1,084,700 – restricted fund, and \$1,055,800 – federal fund) and  $\pm 10$  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  $\pm 5$  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 Incorrect Pay Period in the Accountant's Comments section of this report.

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

- We inspected selected 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, 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 individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes 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 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 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 Department for the year ended June 30, 2007, and inspected 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 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 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.

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 Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

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

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of 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, 2006, to determine if Agency had taken corrective action.

Our findings as a result of these procedures are presented in Object Codes, Incorrect Pay Period, and Closing Packages in the Accountant's Comments section of this report.

The Honorable Jim Rex  
State Superintendent of Education  
South Carolina Department of Education  
May 13, 2008

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 governing body and 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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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.

## **TIMELY DEPOSIT**

Two of twenty-five receipt transactions were not deposited in a timely manner as defined by Proviso 72.1 of the 2007 Appropriation Act. These receipts were collected by one office then transferred to another office for deposit. Though this procedure does not prevent timely deposit, it can contribute to minor delays. Both deposits were made more than one week but less than three weeks after receipt.

Proviso 72.1 of 2007 Appropriation Act states, “For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State.”

We recommend the Department ensure that employees responsible for accepting cash are familiar with Proviso 72.1. We also recommend that the Department implement procedures to ensure compliance with Proviso 72.1.

### **INCORRECT PAY PERIOD**

We found that one of the twenty-five newly hired employees tested was not paid in accordance with the State's pay schedule. The employee started work on June 11, 2007, but did not receive a paycheck until July 16, 2007. The check represented pay earned for two pay periods. The delay occurred because paperwork was not submitted to the Payroll Department in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states in part, "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 there after on a twice monthly schedule as established by the State Budget and Control Board."

We recommend that the Department implement procedures to ensure that all employees are paid in accordance with the State's prescribed pay schedule.

## **OBJECT CODES**

One of the twenty-five receipt transactions tested and two of the twenty-five Appropriation/Cash transfer transactions tested were processed using the wrong object code. The receipt transaction was recorded using object code 2822 (Federal Operating Grants - Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies) for federal grant funds passed through from another state agency. One Appropriation/Cash transfer transaction was recorded using object code 1663 (Allocations EIA – Other State Agencies) instead of object code 1697 (Allocations EIA – Governor’s School for Math and Science) to record the transfer of funds to the Governor’s School of Science and Math for the Junior Scholars Program. The other Appropriation/Cash transfer transaction was recorded using object code 7855 (Sale of Works of Art and Historical Treasures - Capitalized) instead of object code 7859 (Sale of Machinery and Equipment - Non-Capitalized) to record the sale of state property.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual define object codes.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS revenue object codes.

## **CLOSING PACKAGES**

### **Compensated Absences Closing Package**

We noted one employee's leave balance was excluded from the Department's reported liability and one employee's leave liability was calculated using the wrong pay rate. The Department uses the Annual Leave Liability Report from the State Office of Human Resources to calculate its leave liability. A review of the report revealed the report did not include one Department employee. We randomly selected fifteen Department employees to perform additional procedures. Based on the additional procedures we found the pay rate for one employee did not agree with the pay rate documented on the Annual Leave Liability Report.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states, the State's policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30.

We recommend the Department implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package.

### **Grant/Contribution Revenues Closing Package**

The Department's grant/contribution revenues closing package contained three errors in the calculation of grant receivables and/or deferred revenue. Department staff excluded refunds of prior year expenditures when calculating the ending grant fund balance. As a result grants receivable was overstated.

Section 3.3 of the Comptroller General's GAAP Closing Procedures Manual requires agencies to use total receipts for the State fiscal year through June 30 to calculate the agency's receivable and/or deferred revenue.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and reviewing the Grants/Contribution Revenues Closing Package are familiar with the closing package requirements.

## **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 Department of Education for the fiscal year ended June 30, 2006, and dated May 9, 2007. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated findings entitled Object Codes, Incorrect Pay Period, and Closing Packages.

## **MANAGEMENT'S RESPONSE**



## **TIMELY DEPOSIT**

Two of twenty-five receipt transactions were not deposited in a timely manner as defined by Proviso 72.1 of the 2007 Appropriation Act. These receipts were collected by one office then transferred to another office for deposit. Though this procedure does not prevent timely deposit, it can contribute to minor delays. Both deposits were made more than one week but less than three weeks after receipt.

Proviso 72.1 of 2007 Appropriation Act states, "For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the State."

We recommend the Department ensure that employees responsible for accepting cash are familiar with Proviso 72.1. We also recommend that the Department implement procedures to ensure compliance with Proviso 72.1.

### **Response:**

All employees responsible for accepting cash are given a copy of the agency's receipt policies and procedures which include the following statement:

**All monies (i.e., check, cash, money order) received in the office must be taken to the Office of Finance within three (3) business days of receipt. This is to ensure that the department meets state guidelines in making timely deposits.**

All offices will be sent a reminder of the agency's policies and procedures.

## **INCORRECT PAY PERIOD**

We found that one of the twenty-five newly hired employees tested was not paid in accordance with the State's pay schedule. The employee started work on June 11, 2007, but did not receive a paycheck until July 16, 2007. The check represented pay earned for two pay periods. The delay occurred because paperwork was not submitted to the Payroll Department in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states in part, "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 there after on a twice monthly schedule as established by the State Budget and Control Board."

We recommend that the Department implement procedures to ensure that all employees are paid in accordance with the State's prescribed pay schedule.

**Response:**

The Department is aware of the problem with submission of late time sheets. We have and continue to communicate with all offices, First Steps, GSSM, and GSAH that all time sheets and transactions (including all paperwork) must be submitted to the payroll office in a timely manner.

**OBJECT CODES**

One of the twenty-five receipt transactions tested and two of the twenty-five Appropriation/Cash transfer transactions tested were processed using the wrong object code. The receipt transaction was recorded using object code 2822 (Federal Operating Grants - Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies) for federal grant funds passed through from another state agency. One Appropriation/Cash transfer transaction was recorded using object code 1663 (Allocations EIA - Other State Agencies) instead of object code 1697 (Allocations EIA - Governor's School for Math and Science) to record the transfer of funds to the Governor's School of Science and Math for the Junior Scholars Program. The other Appropriation/Cash transfer transaction was recorded using object code 7855 (Sale of Works of Art and Historical Treasures - Capitalized) instead of object code 7859 (Sale of Machinery and Equipment - Non-Capitalized) to record the sale of state property.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual define object codes.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS revenue object codes.

**Response:**

The Department of Education will ensure that individuals responsible for preparing and approving accounting transactions are knowledgeable of STARS object codes. Management will periodically review posted object codes for accuracy.

## **CLOSING PACKAGES**

### Compensated Absences Closing Package:

We noted one employee's leave balance was excluded from the Department's reported liability and one employee's leave liability was calculated using the wrong pay rate. The Department uses the Annual Leave Liability Report from the State Office of Human Resources to calculate its leave liability. A review of the report revealed the report did not include one Department employee. We randomly selected fifteen Department employees to perform additional procedures. Based on the additional procedures we found the pay rate for one employee did not agree with the pay rate documented on the Annual Leave Liability Report. Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual states, the State's policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30.

We recommend the Department implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package.

### **Response:**

The Department of Education will check the Annual Leave Liability Report received from the State Office of Human Resources against agency payroll records to ensure the accuracy of the Compensated Absences Closing Package.

### Grant/Contribution Revenues Closing Package:

The Department's grant/contribution revenues closing package contained three errors in the calculation of grant receivables and/or deferred revenue. Department staff excluded refunds of prior year expenditures when calculating the ending grant fund balance. As a result grants receivable was overstated. Section 3.3 of the Comptroller General's GAAP Closing Procedures Manual requires agencies to use total receipts for the State fiscal year through June 30 to calculate the agency's receivable and/or deferred revenue.

We recommend the Department implement procedures to ensure that personnel responsible for preparing and reviewing the Grants/Contribution Revenues Closing Package are familiar with the closing package requirements.

**Response:**

Personnel responsible for preparing and reviewing the Grants/Contribution Revenues Closing Package are familiar with the closing package requirements. However, there was some confusion as to how the refunds of prior year expenditures would affect deferred revenue and grants receivable based on the prior year's audit. That misunderstanding has been corrected and refunds of prior year expenditures will accurately be analyzed as to their effect on deferred revenue and grants receivable and will be included in the appropriate column on a case-by-case basis.

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