

**SOUTH CAROLINA  
EDUCATION OVERSIGHT COMMITTEE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# State of South Carolina



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

May 17, 2007

The Honorable Mark Sanford, Governor  
and  
Members of the South Carolina Education Oversight Committee  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Education Oversight Committee (the Committee), solely to assist you in evaluating the performance of the Committee for the fiscal year ended June 30, 2006, in the areas addressed. The Committee 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 all recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Committee's policies and procedures and State regulations to determine if revenue collection and retention or remittance were supported by law.
- We inspected all fiscal month 12 and 13, fiscal year 2006 and fiscal month 01, fiscal year 2007 recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger 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 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 restricted funds to ensure that revenue was classified properly in the Committee's accounting records. The scope was based on an agreed upon materiality level of \$17,300 for the restricted fund and  $\pm 10$  percent.

Our findings as a result of these procedures are presented in Object Codes and Disbursements Process 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 Committee's policies and procedures and State regulations, were bona fide disbursements of the Committee, 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 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 restricted fund to ensure that expenditures were classified properly in the Committee's accounting records. The scope was based on an agreed upon materiality level of \$18,100 for the restricted 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 Committee'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 all new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Committee'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 restricted fund to ensure that expenditures were classified properly in the Committee's accounting records. The scope was based on an agreed upon materiality level of \$18,100 for the restricted fund and 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the Committee's accounting records.

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

4. **Journal Entries**

- We inspected all recorded journal entries 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 Committee's policies and procedures and State regulations.

We found no exceptions as a result of the procedures.

5. **General Ledger**

- We inspected selected entries and monthly totals in the records of the Committee 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 Committee'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 Committee for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Committee'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 Committee'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 Committee's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, inspected records, and/or made inquiries of agency personnel to determine the Committee'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, 2006, prepared by the Committee 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 Compensated Absences in the Accountant's 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 and of the governing body and management of the South Carolina Education Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.



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.

## **COMPENSATED ABSENCES**

The Committee is required to submit GAAP (Generally Accepted Accounting Principles) Closing Packages to the Comptroller General's Office at the end of each fiscal year. The requirements and instructions are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting...closing package forms...that are: "Accurate and completed in accordance with instructions." The Committee submitted an inaccurate compensated absences closing package for fiscal year 2006.

The Committee used an outdated salary for an employee when calculating its annual leave liability. GAAP Manual Section 3.17 instructs preparers to calculate the salaries/wages portion of the annual leave liability by multiplying the employee's rate in effect at year-end by each employee's actual unused annual leave balance at year-end. However, the Committee calculated the liability using an outdated rate. As a result, the Committee understated its annual leave liability on its compensated absences closing package by \$773.

We recommend that the staff who complete and independently review closing packages carefully review source data to ensure that the information is current and properly calculated as prescribed by GAAP Manual instructions.

## **RECONCILIATIONS**

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on Comptroller General reports "...provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper." To ensure adequate error

detection and to satisfy audit requirements, the State requires agencies to perform monthly reconciliations of cash, revenues, and expenditures. The cited STARS Manual section lists the following reconciliations requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end)
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes
- Signed and dated by the preparer
- Reviewed and approved in writing by an appropriate agency official other than the preparer

We noted the following deficiencies in the Committee's reconciliation procedures:

1. Reconciliations did not appear to be performed in a timely manner. Agency staff told us that reconciliations were performed timely; however, supporting documents show reconciliations for fiscal months 01 through 12 were not prepared and reviewed until August, 2006.
2. Reconciliations for fiscal month 13 were neither signed nor dated by the preparer or reviewer.

We recommend that the Committee adhere to the STARS Manual by implementing adequate measures to ensure that reconciliations are prepared and reviewed on a timely basis and signed and dated by both the preparer and the reviewer.

## OBJECT CODES

We found that the Committee misclassified certain refund of expenditure transactions as follows:

1. A refund for overpayment of worker's compensation insurance totaling \$699 was recorded to object code 0225 - Other Professional Services. It should have been recorded to object code 1340 - Worker's Compensation Insurance as a reimbursement of the expenditure object code on the original voucher.
2. A refund for a cancelled computer class was recorded to object code 0216 - Telephone and Telegraph. It should have been recorded to object code 0507 - Registration Fee as a reimbursement of the expenditure object code on the original voucher.

The STARS Manual require refunds of current fiscal year expenditures to be recorded as reimbursements of the original object code charged. If a refund relates to a prior year expenditure, it should be recorded to object code 3801 in accordance with the Comptroller General's STARS Manual.

We recommend that the Committee ensure that staff preparing and reviewing deposit documents follow the policies and procedures established by the Comptroller General's Office.

## **SECTION B - OTHER WEAKNESSES**

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

## **DISBURSEMENTS PROCESS**

During our test of receipts, we noted that the Commission received a refund from a vendor that the Commission had overpaid. The overpayment of \$2,435 occurred because of a keying error.

The Commission's internal controls require that a second review of the voucher and supporting documentation be conducted before submitting the voucher for payment. However, this error was not detected by that control.

We recommend that the Commission strengthen its internal control by ensuring that the preparation of vouchers and independent review of supporting documentation be carefully performed to prevent or detect errors.

**MANAGEMENT'S RESPONSE**



**SC EDUCATION  
OVERSIGHT COMMITTEE**

*Reporting facts. Measuring change. Promoting progress.*  
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July 27, 2007

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
Office of the State Auditor 1401  
Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

On behalf of the members and staff of the Education Oversight Committee (EOC) I thank you for the detailed audit of the Fiscal Year 2006 accounting transactions and records. Our staff aspires to adhere to State laws, rules or regulations for financial management; therefore, we are concerned about the errors discovered in the audit.

With respect to each of the Accountant's comments, corrective action has been instituted. Internal controls have been established to ensure that the most current information is used in completing Closing Packages. This change was demonstrated in completing the Fiscal Year 2007 Closing Packages. While reconciliation documents always have been reviewed monthly, proper approval documentation was not provided as evidence. We changed our processes in August 2006 after discussing them with your agents in the Fiscal Year 2005 audit. Corrective controls, exercised with vigilance, have been instituted to ensure that other records are accurate. In regards to improper coding of deposits, documentation will be submitted for processing after codes have been verified by the preparer. In cases of uncertainty, the preparer will contact a staff person at the Treasurer's Office for assistance in selecting the correct code. The accounts payable function has also been adjusted to include an additional verification of batch totals submitted the Comptrollers Office for processing. This method will detect keying errors that have been made.

Should you have other issues that we should discuss or remedy, please call upon me at your convenience.

Sincerely,



Jo Anne Anderson

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Hanicia Graham  
Wayne T. Sams, CPA

Harold C. Stowe  
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4 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$5.96. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.