

**JOHN DE LA HOWE SCHOOL
MCCORMICK, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2010

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State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 17, 2010

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

We have performed the procedures described below, which were agreed to by the governing body and management of John de la Howe School (the School), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2010, 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 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 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 (\$10,200 – earmarked fund, \$7,500 – restricted fund, and \$3,300 – federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenues Cut-Off and Return Checks Account 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 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 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 (\$29,000 – general fund, \$12,400 – earmarked fund, \$3,700 – restricted fund, and \$1,500 – federal fund) and ± 10 percent.

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

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 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 (\$29,000 – general fund, \$12,400 – earmarked fund, and \$1,500 – 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 agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Payroll Calculations 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 Transaction Approval and Documentation in the Accountant's Comments section of this report.

5. **Appropriation Act**

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

Our finding as a result of these procedures is presented in Personal Property Inventory in the Accountant's Comments section of this report.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, prepared by the School and submitted to the State Comptroller General, because all the closing packages for the year ended June 30, 2010 were not yet available. 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 findings as a result of these procedures are presented in Closing Packages and Composite Reservoir Account Bank Reconciliation in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2009, prepared by the School and submitted to the State Auditor, because the schedule for the year ended June 30, 2010 was not yet available. 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

8. **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 School resulting from our engagement for the fiscal year ended June 30, 2007, to determine if Agency had taken corrective action. We applied no procedures to the School's accounting records and internal controls for the years ended June 30, 2009 and 2008.

Our findings as a result of these procedures are presented in Payroll Calculations, Closing Packages, and Schedule of Federal Financial Assistance 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 John de la Howe School 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.

REVENUES CUT-OFF

We tested twenty-five receipt transactions to ensure that the receipt was recorded in the proper fiscal year. Based on the tests performed we noted that one deposit was recorded to the wrong fiscal year. The School recorded receipts received in June 2010 as a fiscal month 01 fiscal year 2011 transaction. The receipts pertained to meal revenue collected by the cafeteria during the last week of June and remitted for deposit after June 30.

State Treasurer's year end close-out procedures require that revenue be recorded in the same fiscal year that the receipt occurs.

We recommend the School develop and implement procedures to ensure that receipts are recorded in the proper fiscal year.

RETURN CHECKS ACCOUNT

Our analytical review of cash receipts and revenues revealed that the account used to record return checks was not properly adjusted at year end. Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting Manual (STARS Manual) explains that at fiscal year end, all transactions remaining in the return check account must be recorded as an adjustment to the appropriate revenue account.

We recommend the School implement procedures to ensure that the return checks account is adjusted at year end in accordance with the Comptroller General's Office policy.

DISBURSEMENTS CODING

We noted account coding exceptions for two of twenty-five randomly selected non-payroll disbursement transactions tested. A disbursement for parking fees (5040490000 – Rental - Other) was coded to 5021540000 – Other Professional Services. A partial payment for the installation of a fire alarm system (5060499000 – Other Equipment – Capitalizable) was coded to 5024990000 – Other Contractual Services. Additionally, our analytical review of expenditures revealed that a transaction for the purchase of data processing equipment which cost approximately \$7,300 (5060404000 – Data Processing Equipment – Capitalizable) was coded to 5200530000 – Data Processing Equipment – Non-Capitalizable.

Section 2.1.6.20 of the Comptroller General’s Statewide Accounting and Reporting Manual (STARS Manual) provides definitions of expenditure object codes to help agencies properly classify expenditures. The South Carolina Enterprise Information System (SCEIS) website, STARS to SAP Account Listing link is the crosswalk between STARS object codes and SAP accounts.

We recommend the School develop procedures to ensure that accounting transactions are reviewed for proper coding.

PERSONAL PROPERTY INVENTORY

We noted that the School did not conduct an inventory of personal property during fiscal year 2010 as required by South Carolina law.

Section 10-1-140 of the South Carolina Code of Laws states, “The head of each department, agency or institution of this state is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables.”

We recommend the School develop and implement procedures to ensure compliance with Section 10-1-140 of the South Carolina Code of Laws, as amended.

CLOSING PACKAGES

Because of the timing of this engagement the fiscal year 2010 closing packages were not available to test. As a result, we tested the School's fiscal year 2009 closing packages.

The GAAP Closing Procedures Manual, Section 1.7 states: "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/ or financial statements that are accurate, complete, and timely."

Our testing of the closing packages revealed that five closing packages were submitted between one and fifteen days after their respective due dates. A similar finding was described in the School's agreed-upon procedures report for the fiscal year ended June 30, 2007 and dated June 25, 2008.

We also noted that the liability reported on the compensated absences closing package did not agree with the School's leave liability report. Numerous pencil changes were noted on the leave liability report that were not carried forward to the closing package. School personnel could not explain the cause for the differences.

We recommend that the School's closing package completion procedures include ensuring and documenting compliance with the Comptroller General's Office due dates and that all amounts reported are adequately supported.

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.

PAYROLL CALCULATIONS

During our test of payroll, which included testing employee terminations and new-hires, we selected seventy-five individual transactions to verify the accuracy of the payroll calculation. Based on the procedures performed we noted several instances in which the pay amount computed by the School did not agree with our calculation. Upon inquiry of School personnel and analysis of the various differences in pay calculations, we determined that the differences associated with nine transactions were generally attributable to salary adjustments made to account for furlough days. We confirmed that the furlough dollar amounts computed for individuals were properly calculated, however the amounts were amortized over a greater number of pay periods (generally twenty-four) than the number of pay periods remaining in the fiscal year resulting in our calculation differences.

For five transactions tested (two first pay calculations and three termination pay calculations) School personnel could not explain or provide support for the amount paid. For two transactions, the difference was attributable to differences in the number of days worked as determined by Human Resources and the number of days the employees were paid. For one terminated employee the School did not pay the employee for the final three days worked. For another new-hire employee, the School paid the individual for one more day than was actually worked. It appears that the errors resulted from miscommunications between Human Resources and Payroll. Finally the School could not locate the one employee's timesheet; consequently, we were unable to verify the hours worked.

Sound business practice requires management to establish and maintain effective internal controls to ensure that all salary and wage calculations and payments are accurate and supported by source documentation.

We recommend that the School strengthen controls to ensure compliance with its policies as well as state laws and regulations. Such controls should ensure that salary and wage calculations are independently verified prior to payment and that the leave system properly credits the employees leave account.

TRANSACTION APPROVAL AND DOCUMENTATION

The School could not provide documentation to support or explain the purpose of several transactions tested, including two of nine appropriation transfers, nine journal entries and one operating transfer between subfunds. In addition, for eleven of the nineteen transactions tested, the documents did not contain evidence of the School's approval. School staff explained that the transactions which did not contain agency approval were initiated by SCEIS staff and they did not provide the School with supporting documentation or work-flow the transaction to the School for approval.

Effective internal controls include controls to ensure that only authorized transactions are processed and that transactions are adequately supported by source documentation.

We recommend the School implement procedures to ensure that all accounting transactions processed through its accounting system are supported by source documentation and approved by appropriate School personnel.

COMPOSITE RESERVOIR ACCOUNT BANK RECONCILIATION

As part of our test of the fiscal year 2009 Cash and Investments Closing Package, we tested transactions and reconciliations associated with the School's composite reservoir bank account. The School performs monthly bank reconciliations; however for eleven of the twelve months tested, the reconciliation procedures were incomplete with respect to agreeing the bank and book balance.

Management of the School is responsible for developing and implementing control procedures that will timely detect and correct errors. Performance of monthly bank reconciliations helps management identify unrecorded transactions, input errors, unauthorized transactions, etc.

We recommend that the School develop and implement procedures to ensure that monthly reconciliations performed on the composite bank account are complete between the bank and book balance. It should also document who prepared the reconciliation, date it was prepared, name of the person who reviewed the reconciliation and the date it was reviewed.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The School's prior year agreed upon procedures engagement report for the fiscal year ended June 30, 2007 and dated June 25, 2008 included an accountants comment titled Schedule of Federal Financial Assistance which disclosed that the schedule of federal financial assistance did not agree with 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. We tested the schedule prepared for fiscal year 2009 because as of the date of our fieldwork the fiscal year 2010 schedule had not been completed. Based on our testwork we determined that the deficiency noted in the prior year still existed.

We recommend that the School follow the State Auditor's instructions in preparing the schedule to ensure that it is submitted properly and reconciled to the State's accounting system.

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 Accountant's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 2007, and dated June 25, 2008. We applied no procedures to the School's accounting records and internal controls for the years ended June 30, 2009 and 2008. We determined that the School has taken adequate corrective action on each of the findings except as noted below:

2007 Finding

Lateness of Compensated Absences Closing Package
Schedule of Federal Financial Assistance
Payroll – Leave Payout Improperly Calculated

2010 Finding

Closing Package Filing Dates
Schedule of Federal Financial Assistance
Payroll Calculations

MANAGEMENT'S RESPONSE



John de la Howe School

South Carolina's Home for Children



Thomas W. Mayer
Superintendent

January 6, 2011

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Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

Attached are responses to the procedures and the associated findings as noted by the Office of State Auditors as they relate to the accounting practices of John de la Howe School.

1. **Revenue Cut-Off:**

Discussion held with the appropriate associates regarding the dates to deposit and record receipts so that they are reflected in the proper fiscal year.

2. **Return Checks Account**

John de la Howe School will adhere to Section 2.1.6.10 of the Comptroller Generals Statewide Accounting and Reporting Manual (STARS Manual) which explains that all transactions remaining in the return check account will be recorded as an adjustment to the appropriate revenue account.

3. **Disbursements Coding**

Training as well as, a link to Section 2.1.6.20 of the STARS Manual has been given to appropriate associates. Also the South Carolina Enterprise Information System (SCEIS) website has also been linked so that there is a crosswalk between STARS object codes and SAP accounts

4. **Personal Property Inventory**

John de la Howe did not conduct an inventory of personal property during fiscal year 2010. We are currently developing and implementing procedures to ensure compliance to Section 10-1-140 of the South Carolina Code of Laws.

5. **Closing Packages**

John de la Howe School will adhere to the due dates for Closing Packages as submitted by the Comptroller General's Office for fiscal year ending June 30, 2011.

Human Resources will ensure that all figures are accounted for and working papers attached to the compensated absences closing package.

6. **Payroll Calculations**

Human Resources and Payroll have set measures in place to detect potential errors. Also, training has been provided to assist in detecting areas of concern.

7. **Transaction Approval and Documentation**

John de la Howe will have proper documentation for all transactions (Appropriation, journal entries, etc.) processed through our accounting system. Also each document will have the approval of appropriate school personnel.

8. **Composite Reservoir Account Bank Reconciliation**

Procedures are in place to ensure that monthly bank reconciliations performed on the composite bank accounts are complete between the bank and book balance.

9. **Schedule of Federal Financial Assistance**

The Schedule of Federal Financial Assistance will be submitted by the due date set by the Comptroller General's Office.

10. **Schedule of Prior Findings**

John de la Howe will adhere to the due dates as set by the Comptroller General's Office for Closing Package submission.

Sincerely,



Mary H. Cartledge
Director of Business Operations

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