

**SOUTH CAROLINA STATE BOARD FOR
TECHNICAL AND COMPREHENSIVE EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 13, 2009

The Honorable Mark Sanford, Governor
and
Members of the Board
South Carolina State Board for Technical
and Comprehensive Education
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Board for Technical and Comprehensive Education (the Board), solely to assist you in evaluating the performance of the Board for the fiscal year ended June 30, 2008, in the areas addressed. The Board'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 (\$7,600 – general fund, \$58,700 – earmarked fund, \$197,700 – restricted fund, and \$4,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Coding of Transactions 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 Board, 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 (\$392,000 – general fund, \$65,500 – earmarked fund, \$203,600 – restricted fund, and \$3,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Coding of Transactions and Expenditure Cut-Off 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, 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 (\$392,000 – general fund, \$65,500 – earmarked fund, \$203,600 – restricted fund, and \$3,600 – 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 findings as a result of these procedures are presented in Timesheets and Payroll Deductions in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries and all 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 journal entry transactions selected were chosen randomly. Our finding as a result of these procedures is presented Journal Entries 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 Board 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 Board for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Board'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 Board'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 Board'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 Board'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, 2008, prepared by the Board 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, 2008, prepared by the Board 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.

The Honorable Mark Sanford, Governor
and
Members of the Board
South Carolina State Board for Technical
and Comprehensive Education
February 13, 2009

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 Board resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Board had taken corrective action.

Our findings as a result of these procedures are presented in Coding of Transactions, Timesheets, and Journal Entries 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 State Board for Technical and Comprehensive Education 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.

CODING OF TRANSACTIONS

The prior year finding, Coding of Transactions, described that the Board had assigned incorrect object codes to certain expenditure and revenue transactions. During the current year we determined that one of twenty-five disbursements and two of twenty-five receipts were coded incorrectly. The Board incorrectly coded a disbursement transaction to reimburse an employee for in-state automobile mileage using the object code for out-of-state automobile mileage (object code 0514). The Board recorded a receipt for a facilities rental charge as a reimbursement of personnel services expenditure (object code 0158) and a receipt for a technical support fee as reimbursement of office supplies (object code 0301).

The Statewide Accounting and Reporting System (STARS) Manual describes all applicable revenue and expenditure object codes.

We again recommend that the personnel responsible for coding accounting transactions and those who independently review deposit and voucher packages exercise due care to ensure appropriate coding of object codes.

TIMESHEETS

The prior year finding, Timesheets, described how employees were paid in the wrong pay period due to untimely submission of timesheets. During current year testing, we determined that payments to twelve of twenty-five new hires were not processed in the proper pay period because timesheets were not submitted timely. Additionally, one of the twenty-five regular payroll transactions tested was paid in the wrong pay period because the timesheet was not submitted timely.

The prior year finding also described that the Board did not provide a complete list of new hires. Again the Board did not provide a list of all new hires.

Section 8-11-35 of the South Carolina Code of Laws states, “appropriations for compensation of state employees must be paid in twice-monthly installments to the person holding the position. 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 thereafter on a twice-monthly schedule as established by the State Budget and Control Board...”

We again recommend the Board carefully follow the payroll schedule established by State law. Additionally, we recommend the Board prepare its list of new hires using the employee’s actual hire date as documented in the personnel files.

CLOSING PACKAGES

Section 1.7 of the Controller General’s Closing Procedures Manual 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 and prepared in accordance with instructions, complete, and timely.” Our testing of the Board’s closing packages disclosed the following exceptions:

Capital Assets Closing Package

The Board reported net corrections to prior year balances as part of current year depreciation and additions amounts rather than reporting it separately as net corrections as required by closing package instructions. The separate column is required to be used for reporting prior year corrections to assist in accurate financial reporting at the State level.

Significant Miscellaneous Commitments Closing Package

The Board incorrectly reported a payable for a project commitment in the miscellaneous commitment closing package. As a result the commitment balance was overstated on the closing package.

Compensated Absences Closing Package

We were unable to agree all employee leave balances to supporting documentation. The leave balance used to calculate one employee's leave liability was understated. Additionally, a formula used in the Board's compensated absences worksheet to calculate the liability was not calculating the liability properly. The spreadsheet calculation did not use current pay rates. The result of this error understated the reported liability for compensated absences.

Recommendation

We recommend the Board develop and implement procedures to ensure that all closing packages are completed in accordance with the Comptroller General's Closing Procedures Manual Instructions. Furthermore, we recommend the Board make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

PAYROLL DEDUCTIONS

For one of twenty-five payroll transactions tested, we were unable to verify the authorization or consent for some of the voluntary payroll deductions. The voluntary deductions included a 401K plan deduction, a charitable contribution deduction, and a deduction for the State Employee Association.

Chapter 11 of Title 8 of the South Carolina Code of Laws requires written authorization for deductions for charitable contributions and State Employees Association. Chapter 23 of Title 8 requires consent of the employee to defer a portion of his compensation to a plan such as a 401K.

We recommend the Board develop and implement procedures to ensure that all voluntary deductions are supported by employee authorizations maintained in the payroll or personnel file.

EXPENDITURE CUT-OFF

We determined that one of twenty-five expenditures tested was not recorded in the proper fiscal year. The Board recorded an expenditure for services received in fiscal year 2008 as a fiscal year 2009 transaction. According to the date stamps on the supporting documentation, the finance department did not receive authorization to pay the invoice from a separate Board department until after the year-end cut off date.

State Treasurer's year-end close-out procedures require that goods and services received on or before June 30 be charged to that year's expenditures.

We recommend the Board ensure that procedures are followed by all departments to ensure that expenditures are paid and recorded in the proper fiscal year. Documentation should explain why an expenditure is recorded for goods or services received in a prior year.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

JOURNAL ENTRIES

The prior year finding, Journal Entries, explained that the Board did not document its independent review for accuracy and/or authorization for some of the journal entries tested. During our current year test of journal entries, four of twenty-five journal entries did not include evidence of an independent review. The journal entries were signed only by the document preparer.

A strong system of internal controls over journal entries includes evidence of independent review. In addition Board policy requires an independent review of all journal vouchers.

We again recommend the Board ensure that independent review of journal vouchers are documented.

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 Board for the fiscal year ended June 30, 2007, and dated February 20, 2008. We determined that the Board has taken adequate corrective action on one of the findings and we have repeated three of the findings, Coding of Transactions, Timesheets, and Journal Entries.

MANAGEMENT'S RESPONSE

MANAGEMENT'S RESPONSE

Below are management's responses regarding the Accountant's Comments included in the report resulting from performance of agreed-upon-procedures to the accounting records of the South Carolina State Board for Technical and Comprehensive Education for the fiscal year ended June 30, 2008.

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

CODING OF TRANSACTIONS

Management agrees that we had several instances of miscoding transactions. We however disagree that these transactions were material. Management will ensure staff is properly trained on coding transactions in accordance with Comptroller General's Office guidelines.

We agree that a disbursement voucher to reimburse an employee for in-state automobile mileage using the object code for out-of-state mileage was in error. This error (Voucher # 1036) totaled \$ 32.48 and we believe this amount to be immaterial.

We agree a receipt for a facilities rental charge for \$5,200 from the STCS Foundation was incorrectly coded to personnel services expenditure object code. We will exercise greater care to ensure that the expenditures are properly coded.

We agree that a receipt for \$1,875 for technical support from the SC Association of Technical College Commissioners was coded as a reimbursement of office supplies (object code 0301). This receipt includes charges for office supplies, use of the copier and the paper in the copier. We believe this amount to be immaterial.

TIMESHEETS

The auditors noted twelve instances in which timesheets for temporary employees were not submitted by the regional offices in a timely manner, which prevented timesheets from being processed in the appropriate pay period. The auditors also found that the new hire listing was incomplete.

Upon receipt of the report dated February 20, 2008 and the issuance of management's response for the fiscal year ended June 30, 2007 on April 29, 2008, we began addressing the issue of timeliness of timesheets. On March 27, 2008, System Office Finance and Human Resources staff conducted training for the administrative assistants in the regional offices. The training included an emphasis on the payroll process and the importance of timely submission of timesheets. We have instructed all supervisor's of their responsibility to ensure that timesheets are received in the System Office in a timely manner. Management believes that we handled the issue as timely as possible considering the date upon which the report was received. We believe that the issue has

been resolved and as of July 1, 2008 we have been in compliance with Section 8-11-35 of the South Carolina Code of Laws.

The report notes that the Board did not provide a complete list of new hires which was a prior year finding. The new hire list is a manual list that contained 33 new hires with 1 person being omitted from the list in error. This equates to a 3% error rate and we believe this is below the threshold of materiality.

CLOSING PACKAGES

Management agrees with your findings concerning the GAAP Closing Packages. We will exercise greater care in reviewing GAAP Closing Packages to ensure that all packages are completed accurately and timely. We will also ensure staff is trained and understands GAAP Closing Package requirements.

Capital Assets Closing Package

We concur with the finding that we incorrectly reported our prior year balance corrections on the capital assets closing package. The prior year balance corrections were reported as part of the current year depreciation and additions amounts rather than reporting it separately as net corrections as required. This did not cause any misstatement in total assets for the Board.

Significant Miscellaneous Commitments Closing Package

The Board reported a payable for a project commitment in the miscellaneous commitment closing package. While this was an overstatement on the closing package, management disagrees that this is a material finding. The overstatement of \$15,210 was reported in the Accounts Payable Closing Package as well as the Miscellaneous Commitments Closing Package. This resulted in less than a 0.1% error in the total miscellaneous commitments and we believe this is below the threshold of materiality.

Compensated Absences Closing Package

We agree that the Board incorrectly calculated one employee's leave balance resulting in an understatement of the liability. The calculation resulted in an understatement of \$11,005.68, less than 3% error and immaterial to the total reported compensated absences of \$584,108.

In addition, to calculate the employee leave balance we used the pay rate as of 7/1/08. This pay rate included the pay increase of 1 %. Therefore, our compensated absences closing package was overstated by \$850 or < 0.1 %.

PAYROLL DEDUCTIONS

We concur that the authorizations for payroll deductions or consent from some voluntary payroll deduction have not been retained in the payroll files. We have implemented new procedures to address the weakness in our payroll process to ensure complete records.

EXPENDITURE CUT-OFF

We agree that the Board recorded an expenditure for tuition reimbursement for \$1,809 from prior fiscal year in current year. The receipt of documentation into Finance for payment was not received until 7/16/08, after the close of the Fiscal Year 2008. We believe this amount to be immaterial.

SECTION B – OTHER WEAKNESSES

JOURNAL ENTRIES

We concur with the finding regarding the four journal entries that were not subjected to independent review for accuracy and/or authorization. Upon receipt of the report dated February 20, 2008 and the issuance of management's response for the State Auditor's Report for fiscal year ended June 30, 2007, on April 29, 2008, we began addressing the issue of independent review of all journal vouchers. Procedures are in place to subject all journal vouchers to an independent review for accuracy and to require authorization by an appropriate official. We believe the appropriate level of monitoring and procedures we have implemented will ensure compliance in the future.

SECTION C - STATUS OF PRIOR FINDING

The agreed-upon-procedures engagement of fiscal year 06-07 was completed in February 2008 and management's response was submitted as of April 29, 2008. Therefore, there was little opportunity to implement corrective action on the accountant's comments for fiscal year 07-08 until fiscal year 08-09. The Board has addressed the issues in 08-09 from the 06-07 audit dated February 20, 2008 and implemented the appropriate actions necessary to comply with current state laws and regulations.

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