

**SOUTH CAROLINA  
DEPARTMENT OF EDUCATION  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

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

September 17, 2015

The Honorable Molly M. Spearman  
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 management of the South Carolina Department of Education (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, 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 twenty-five 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 twenty-five selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- 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 account 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 (\$11,200 – general fund, \$114,800 – earmarked fund, \$2,420,000 – restricted fund, and \$3,051,600 – 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. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account 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 (\$8,182,200 – general fund, \$113,700 – earmarked fund, \$2,467,400 – restricted fund, and \$3,088,800 – 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 twenty-five 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; and payroll transactions 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 payroll transactions for twenty-five selected new employees and twenty-five individuals 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 current year payroll expenditures at the subfund and account 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 (\$8,182,200 – general fund, \$113,700 – earmarked fund, \$2,467,400 – restricted fund, and \$3,088,800 – 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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected twenty-five selected recorded journal entries, twenty-five operating transfers, and five 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. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reporting Packages 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, 2014, 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.

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 Department resulting from the engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

We found no exceptions as a result of the procedures.

The Honorable Molly M. Spearman  
State Superintendent of Education  
South Carolina Department of Education  
September 17, 2015

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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 State Superintendent of Education and management of the South Carolina Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

**SECTION A - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

## **REPORTING PACKAGES**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." We tested the Department's fiscal year 2014 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following exceptions were noted within the following reporting packages:

### **Capital Assets Reporting Package**

During our testing of the Capital Assets Reporting Package we noted one fiscal year 2013-2014 acquisition of low value assets was improperly classified as Intangible Assets – Non-depreciable. This resulted in an overstatement of approximately \$40,000 of non-depreciable assets on the asset history report submitted through the reporting package process. Misinterpretation of general ledger accounting codes during the processing of the disbursement transaction resulted in the misstatement of the reported asset balance.

### **Miscellaneous Revenues Reporting Package**

We performed a cursory review of the supporting schedules, and tested seventeen selected transactions, supporting the account receivable balance reported by the Department. Our review of the supporting schedules revealed the Department excluded approximately \$9,000 from the receivable balance, and our transaction testing identified two transactions totaling approximately \$5,000 which were included but should have been excluded from the reported balance, resulting in a net understatement of approximately \$4,000. Based on our review, it appears that timing and other errors associated with the completion of the Department's supporting schedules caused the misstatements.

### Prepaid Expenses Reporting Package

We tested the mathematical accuracy of all twelve transactions supporting the reported prepaid expense balance and agreed them to support documentation. A calculation error associated with the start date of one prepaid transaction resulted in the non-current portion of prepaid expense being understated by approximately \$1,900 and the current portion of the reported expense being overstated by the same amount.

### Recommendation

We recommend the Department develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual and form instructions.

## **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 for the fiscal year ended June 30, 2013, and dated April 25, 2014. We determined that the Department has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**

SC Department of Education – Responses to 2014 Agreed Upon Procedures Audit

1. Capital Assets Reporting Package – We agree with this finding and have put policies and procedures in place as result of this audit and an agency internal audit for Assets. We will continue to review these closing packages for accuracy in accordance with the Comptroller General’s Reporting Policies and Procedures Manual.
2. Miscellaneous Revenues Reporting Package – We agree with this finding and have put an additional layer of review into place to ensure these misstatements do not occur in the future and are in accordance with the Comptroller General’s Reporting Policies and Procedures Manual.
3. Prepaid Expenses Reporting Package – We agree with this finding and have put an additional layer of review into place to ensure these misstatements do not occur in the future and are in accordance with the Comptroller General’s Reporting Policies and Procedures Manual.

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