

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

STATE AUDITOR'S REPORT

JUNE 30, 2016



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 27, 2017

The Honorable Molly M. Spearman
State Superintendent of Education
Department of Education
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Education (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the 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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Department of Education (H63)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level with those of the prior year. Obtain and document an understanding of variations over \$11,200 and 10% for the General Fund, \$98,400 and 10% for the Earmarked Fund, \$2,677,500 and 10% for the Restricted Fund, and \$3,145,300 and 10% for the Federal Fund.
2. Randomly select twenty-five cash receipt transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Appropriations Act Proviso 117.1.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-one cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Finding

Refund of Prior Year Expenditure

During our inspection of cash receipts/revenues, we observed that one transaction with an amount of \$13,425 was a refund for unexpended allocations in FY15, returned in FY16. This was coded in general ledger account 5170500000 Allocation to School Districts, but should have been coded to general ledger account 4520010000 Refund of Prior Year Expenditure.

Revenue Cut-off

During our inspection of cash receipts/revenues, we observed that three transactions, totaling \$3,150, were revenue that was received and recorded in FY16. However, these receipts were for services to be performed in July 2016. The South Carolina Comptroller General's Reporting Policies and Procedures Manual specifies that revenue from exchange transactions are to be reported in the fiscal year in which the exchange takes place regardless of when cash is received. Therefore, they should have been recorded as a deferred revenue to general ledger account 2400030000 Deferred Revenues – Current, until they were earned in July 2016. We also observed one additional transaction, in the amount of \$700, was a revenue that was received on July 5, 2017 and recorded in FY17. However, this receipt was for a service performed in June 2016, and should have been posted as a receivable in FY16.

Management's Response

Refund of Prior Year Expenditure

Management agrees with the finding. The South Carolina Department of Education has reviewed and updated procedures to note when recording a refund of EIA funds, G/L code 4520010000 (Prior Year Refund) will be used. The South Carolina Department of Education has added additional review steps in its year end revenue cut-off procedures to ensure year end transactions are recorded to the correct general ledger account and in the correct fiscal year.

Management's Response (Continued)

Revenue Cut-Off

Management agrees with the finding. The South Carolina Department of Education has added additional review steps in its year end revenue cut-off procedures to ensure year end transactions are recorded to the correct general ledger account and in the correct fiscal year.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$9,200,000 and 10% for the General Fund, \$500,000 and 10% for the Earmarked Fund, \$7,500,000 and 10% for the Restricted Fund, and \$3,200,000 and 10% for the Federal Fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$9,200,000 and 10% for the General Fund, \$500,000 and 10% for the Earmarked Fund, \$7,500,000 and 10% for the Restricted Fund, and \$3,200,000 and 10% for the Federal Fund.
8. Randomly select twenty-five employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.

Payroll (Continued)

- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Haphazardly select five bonus pay disbursements to determine:

- Employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- Transaction was appropriately documented and approved.

10. Haphazardly select twenty-five bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:

- Employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
- Employee does not make more than \$100,000 annually.
- Bonus pay was split between funds according to the ratio of the employee's base salary.

11. Randomly select twenty-five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

12. Randomly select twenty-five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

13. Compare the percentage change in personal service expenditures between the prior year and the current year to the percentage change in employer contributions expenditures between the prior year and the current year. Obtain an explanation of changes of +/- 10%.

14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

15. Randomly select twenty-five journal entries and transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.

Journal Entries and Transfers (Continued)

- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
17. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

18. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect the following reporting packages: Master Reporting Checklist, Capital Assets Reporting Package, Miscellaneous Revenues Reporting Package, and the Prepaid Expenses Reporting Package to:
 - Determine if preparation was in accordance with Comptroller General Office requirements (<http://www.cg.sc.gov/guidanceandformsforstateagencies>).
 - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

Status of Prior Findings

19. Inquire about the status of findings reported in the accountant's comments section of the engagement for the prior fiscal year to determine if the Department has taken appropriate corrective action.

We found no exceptions as a result of the procedures.

Minutes

20. We will inspect the Department's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.