

**SOUTH CAROLINA  
EDUCATION OVERSIGHT COMMITTEE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2009**

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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

June 16, 2010

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, 2009, 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.
- We inspected all recorded receipts for fiscal months 12 and 13, fiscal year 2009 and fiscal month 01, fiscal year 2010 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 fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level of \$17,400 for the restricted fund and  $\pm 10$  percent.

Our finding as a result of these procedures is presented in Cash Receipts 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 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 earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$100 – earmarked fund and \$19,800 – 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 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 all terminated employees to determine if the employees were removed from the payroll in accordance with the Committee'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.
- 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 agreed upon materiality level of \$19,800 for the restricted fund and  $\pm 10$  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, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries and all operating 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 Committee'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. **General Ledger and Subsidiary Ledgers**

- 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, 2009, 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, observed processes, and/or made inquiries of agency personnel to determine the Committee'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.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, 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.

We found no exceptions as a result of the procedures.

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

We found no exceptions as a result of the procedures.

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 – 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.

## **PERSONAL PROPERTY INVENTORY**

We noted that the Committee did not conduct an inventory of all personal property in fiscal year 2009 as required by South Carolina law. The Committee did not have procedures in place to ensure that the required inventory of personal property was completed during the fiscal year.

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

## **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.

## **CASH RECEIPTS**

While performing the test of receipts we were unable to determine the receipt date for four of the ten receipts tested. Compliance with State law requiring timely deposits cannot be verified if the date of receipt is not documented. The Committee's cash receipts consist of a small number of refunds or reimbursements of expenditures. The Committee records the receipt including date received in a receipt log. Because the date received was not documented for four of the receipts, we were unable to verify timely deposit. General Proviso 89.1 of the fiscal year 2009 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend the Committee to follow its policies and procedures to ensure that cash receipts are properly recorded in the receipt log.

## **RECONCILIATIONS**

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the 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. Agencies are required to perform monthly reconciliations for revenues, expenditures, and ending cash balances at the level of detail in the Appropriation Act and at least monthly on a timely basis (i.e. shortly after month-end).

Our review of the fiscal year 2009 reconciliations disclosed an error in the Committee's books that was not detected by the Committee's reconciliation procedures. The error, an overstatement of expenditures on the Committee's books, could have been detected and corrected if STARS Manual guidance had been interpreted and followed differently.

We recommend the Committee develop, implement, and revise its reconciliation procedures to ensure that reconciliations for revenue, expenditures, and cash balances are conducted at the appropriate level of detail.

## **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 Committee for the fiscal year ended June 30, 2007, and dated April 30, 2008. We applied no procedures to the Committee's accounting records and internal controls for the year ended June 30, 2008. We determined that the Committee has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**



**SC EDUCATION  
OVERSIGHT COMMITTEE**

*Reporting facts. Measuring change. Promoting progress.*

PO Box 11867 | 227 Blatt Building  
Columbia SC 29211 | WWW.SCEOC.ORG

July 19, 2010

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 2009 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.

Our accounting office will make adjustments to provide adequate documentation when assigning inventory of personal property. Prior to fiscal year 2009, this activity was performed on a routine, annual basis. Although a printed report was not created for the year in review, periodic updates were made whenever items were transferred for any reason. The cash receipts procedure has been corrected to enforce that all cash payments regardless of denomination are recorded in the receipts log. The budget officer will work to report monthly and annual reconciliations in compliance with the outline provided by the staff auditor who performed the fiscal year 2009 audit.

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

Sincerely,

Jo Anne Anderson

c. Tracy Brice  
Hanicia Graham  
George Gentry, CPA

Neil C. Robinson, Jr.  
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Michael A. Anthony  
Charmeka Bosket

Bill Cotty

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Ann Marie Taylor

Neil Willis

Jo Anne Anderson  
EXECUTIVE DIRECTOR

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