

SOUTH CAROLINA DEPARTMENT OF EDUCATION

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2011

State of South Carolina



Office of the State Auditor

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June 6, 2012

The Honorable Mick Zais
State Superintendent of Education
South Carolina Department of Education
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Education for the year ended June 30, 2011, was issued by Greene, Finney & Horton, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
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 Department of Education (the "Department") and by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2011, 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 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department'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 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$7,200 – general fund, \$180,000 – earmarked fund, \$2,400,000 – restricted fund, and \$4,200,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented as "Income Statement Coding" in the Accountants' 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 Department'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 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$6,600,000 – general fund, \$270,000 – earmarked fund, \$2,400,000 – restricted fund, and \$4,100,000 – federal fund) and +/- 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 Department's policies and procedures and State regulations.
- 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 Department'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 Department's accounting records. The scope was based on agreed upon materiality levels (\$6,600,000 – general fund, \$270,000 – earmarked fund, \$2,400,000 – restricted fund, and \$4,100,000 – 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 Department's accounting records.

3. **Payroll Disbursements and Expenditures (Continued)**

The individual transactions selected for the new hire and terminated employee testing were chosen randomly. The employees selected for the payroll disbursement testing were chosen randomly and the pay dates tested for those employees were chosen systematically. Our findings as a result of these procedures are presented as “Personnel Files”, “Employee Location Codes”, “Personnel Files – New Hire Dates”, and “Termination Paperwork” in the Accountants’ 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 Department’s policies and procedures and State regulations.

The individual transactions selected for the journal entry and appropriation transfer testing were chosen randomly. We selected and tested all operating transfers during the fiscal year. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, 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 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 as “Closing Packages – Capital Assets” and “Closing Packages – Operating Leases” in the Accountants’ 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, 2011, prepared by the Department and submitted to the State Auditor. The Office of the State Auditor audited the Department’s schedule when it conducted the Statewide Single Audit. Based on discussions with management of the Office of the State Auditor, no further testing was considered necessary.

8. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountants' Comments section of the State Auditor's Report on the Department resulting from the Office of the State Auditor's engagement for the fiscal year ended June 30, 2008, to determine if Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2009 and 2010.

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 governing body and management of the Department and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
June 6, 2012

ACCOUNTANTS' 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 Department 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.

Personnel Files

- Condition: We selected and tested a total of 62 payroll disbursements including normal payroll, new hire, and terminated employee disbursements. The Department could not locate a personnel file for one of the 62 disbursements selected for testing; however, the payroll department was ultimately able to provide adequate documentation for testing purposes.
- Cause: The Department could not locate the personnel file.
- Effect: The payroll department was ultimately able to provide adequate documentation for testing purposes and it was determined that the employee was paid correctly; however, the inability to locate documentation for the employee selected is a violation of state regulation noted in the Criteria below.
- Criteria: The South Carolina Code of Regulations, Chapter 47, Article 14 requires that each employing unit preserve for five years existing records with respect to individuals in its employ on or after July 1, 1936, including name and social security number. This is also a violation of Section 19-720 of the State Human Resources Regulations concerning recordkeeping, which state that each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to, employment application, all human resources actions reflecting the employees work history with the Department, documentation directly related to the employee’s work record and all performance evaluations.
- Recommendation: We recommend that the Department ensure that all required and current employee documentation be maintained for each employee in his/her personnel file.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS (CONTINUED)

Closing Packages – Capital Assets

- Condition: The amounts reported on the Capital Assets closing packages for 2011 were correct and agreed to reconciled workpapers of the Department, but did not agree to the amounts recorded in the asset listing in the South Carolina Enterprise Information System (“SCEIS”) or the trial balance for fiscal year 2010 (beginning balance for fiscal year 2011) and fiscal year 2011 (ending balance) due to additions that have been included in accounts payable and capitalized in prior years and then processed as additions again in the subsequent year when actually paid.
- Cause: As noted in the Condition above, additions had been included in accounts payable and capitalized in prior years and then processed as additions again in the subsequent year when actually paid.
- Effect: The amounts reported on the Capital Assets closing packages did not agree to SCEIS or the trial balance and thus had to be reconciled manually.
- Criteria: The Office of the Comptroller General’s Reporting Policies and Procedures Manual requires capital assets to be reported at historical cost in the period received and that these amounts should agree to the asset listing in SCEIS and the trial balance.
- Recommendation: We recommend that the Department establish procedures to ensure that capital asset additions included in accounts payable are only capitalized in the year that they are included in accounts payable and that the asset listing in SCEIS agrees with the trial balance and closing package.

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.

Income Statement Coding

- Condition: It was noted during our revenue analytical procedures that two changes from the current year to the prior year were a result of coding errors in the prior year – as prior year receipts or transfers had been recorded to a wrong account.
- Cause: Policies and procedures relating to the accurate recording of receipts and transfers were not followed in the prior year.
- Effect: Prior year receipts and transfers were coded incorrectly in the prior year.
- Criteria: Transactions should be recorded to the correct accounts when being processed in order to provide for accurate oversight and meaningful comparative information.
- Recommendation: We recommend that the Department follow policies and procedures in place to ensure accurate coding of receipts and disbursements. In addition, we recommend that current year to prior year analysis be performed periodically during the year and after the fiscal year is closed to ensure that items have been coded to the appropriate accounts.

Employee Location Codes

- Condition: It was noted during our terminated employee testing that the location code for four of the 22 employees tested was the Department; however, the employees were actually employed by the Governor’s Schools.
- Cause: The location code for the employee was input incorrectly when setting the employee up in the SCEIS system.
- Effect: The employees cost code was appropriately recorded as the Governor’s Schools and the payroll disbursements for these employees were recorded correctly; however, the internal records within SCEIS did not match.
- Criteria: The Department’s internal records should be consistent.
- Recommendation: We recommend that the Department verify and match location codes and cost codes for employees to ensure consistency and accuracy of internal records and avoid confusion regarding the recording of expenditures by cost center.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Personnel Files – New Hire Dates

- Condition: It was noted during our new hire testing that the new hire dates on the personnel action forms for two of 15 employees selected for testing did not initially agree with the new hire dates for those employees in SCEIS as the personnel action forms showed a date approximately one year later than the date shown in SCEIS.
- Cause: Current employee documentation was not being maintained in personnel files.
- Effect: The personnel department was ultimately able to provide documentation that supported the new hire date in SCEIS and the employees were paid correctly.
- Criteria: The Department’s internal records should be consistent.
- Recommendation: We recommend that the Department implement procedures to ensure that their internal records agree.

Termination Paperwork

- Condition: We selected and tested a total of 22 final paychecks to terminated employees. One of the 22 employees tested was terminated in June 2010; however, the employee was not terminated in the South Carolina Enterprise Information System (“SCEIS”) until January 2011 due to the approved termination form not being completed until January 2011.
- Cause: Paperwork was not processed in a timely manner.
- Effect: Though the paperwork was not processed in accordance with the Department’s policies and procedures, the employee did not receive any overpayments and was paid correctly.
- Criteria: The Departments Termination Policy No. 607.1 states that termination papers must be submitted within the pay period in which the action occurs.
- Recommendation: We recommend that the Department follow the policies and procedures in place to ensure timely processing of paperwork and termination of employees in SCEIS to limit the risk of error and/or overpayments.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Closing Packages – Operating Leases

- Condition:** The lease payments for one of the Department’s 11 operating leases that are reported on the monthly closing packages are paid annually on a different fiscal year than the State’s fiscal year end. The annual payment on this operating lease of \$313,864 is made in advance on March 1st for the following year. At the end of each month, there is a significant prepaid balance that should ultimately be recorded as “Prepaid Rent” (since the State has elected to use the consumption method for prepaids) under the modified accrual basis of accounting – if material.
- Cause:** Currently, there is not a mechanism on the closing package to provide prepaid information to the Comptroller General’s Office.
- Effect:** At the end of each month, there is a significant prepaid balance that should ultimately be recorded as “Prepaid Rent” (since the State has elected to use the consumption method for prepaids) under the modified accrual basis of accounting – if material.
- Criteria:** The Comptroller General’s Reporting Policies and Procedures Manual (“Manual”) states that lessees need to disclose in the notes the financial statements the future minimum lease payments at June 30 for operating leases that are noncancelable and have an initial or remaining lease term at June 30 longer than one year. A minimum lease payment is defined in the Manual as the amount required to be paid by the lessee to the lessor under the lease agreement. It appears that the Department is reporting the future minimum lease payments correctly (based on the current guidance) – but there is no current mechanism to provide prepaid information to the Comptroller General’s Office.
- Recommendation:** We recommend that the Department discuss/confirm with the Comptroller General’s Office: (a) how operating leases are to be reported for the future minimum lease payment schedule on the closing packages (i.e. cash basis, etc.) and (b) how operating leases paid in advance (prepaid rent) are to be reported as there is no current mechanism on the closing packages to provide this relevant information.

SECTION C – STATUS OF PRIOR AUDIT 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 Office of the State Auditor’s Report on the South Carolina Department of Education for the fiscal year ended June 30, 2008, dated April 23, 2009. We applied no procedures to the Department’s accounting records and internal controls for the years ended June 30, 2009 and 2010. We determined that the Department has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

SECTION A – VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

Personnel Files

We selected and tested a total of 62 Payroll disbursements including normal payroll, new hire, and terminated employee disbursements. The Department could not locate a personnel file for one of the 62 disbursements selected for testing; however, the payroll department was ultimately able to provide adequate documentation for the testing purposes.

Management Response: The personnel file was misfiled during initial search. The file has been found and placed in the correct location.

Closing Packages – Capital Assets

The amounts reported on the Capital Assets closing packages for 2011 were correct and agreed to reconciled workpapers of the Department, but did not agree to the amounts recorded in the asset listing in the South Carolina Enterprise Information System (SCEIS) or the trial balance for the fiscal year 2011 (ending balance) due to additions that have been included in accounts payable and capitalized in prior years and then processed as additions again in the subsequent year when actually paid.

Management Response: The discrepancy between the amounts in the FY 2011 closing package and the SCEIS asset listing was the result of a FY 2010 conversion error that was communicated to SCEIS in FY 2011 but not corrected until FY 2012 by the SCEIS team. The SC Department of Education will continue to monitor postings in SCEIS and work with SCEIS team to ensure that all posting errors are corrected in a timely manner.

SECTION B – OTHER WEAKNESSES

Income Statement Coding

It was noted during our revenue analytical procedures that two changes from the current year to the prior year were a result of coding errors in the prior year – as prior year receipts or transfers had been recorded to a wrong account.

Management Response: The SC Department of Education will ensure that individuals responsible for preparing and approving accounting transactions are knowledgeable of general ledger codes. Management will periodically review posted general ledger codes for accuracy.

Employee Location Codes

It was noted during our terminated employee testing that the location code for four of 22 employees tested was the Department; however, the employees were actually employed by the Governor's Schools.

Management Response: The location code is only relevant when an employee receives a paper check and is not enrolled in Direct Deposit. However, the SCDE will review and determine that location codes for all employees are correct.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Personnel Files – New Hire Dates

It was noted during our new hire testing that the new hire dates on the personnel action forms for two of 15 employees selected for the testing did not initially agree with the new hire dates for those employees in SCEIS as the personnel action forms showed a date approximately one year later than the date shown in SCEIS.

Management Response: Paperwork that matched the selected action may not have been turned in to the auditors if the most current action (2011) was removed from the file and submitted.

The paperwork/documentation for one employee showing the hire date of 7/11/2010 is in the HR file. SCEIS shows New Hire (Original Appointment) date as 7/11/2010. It seems that 6/19/2011 paperwork was submitted to the auditors. The 6/19/2011 date reflects a subsequent hire of the employee.

The paperwork/documentation for one employee showing the hire date of 7/11/2010 is in the HR file. SCEIS shows New Hire (Original Appointment) date as 7/11/2010. It seems that 7/10/2011 paperwork was submitted to the auditors. The 7/11/2011 date reflects a subsequent hire of the employee.

Termination Paperwork

We selected and tested a total of 22 final paychecks to terminated employees. One of the 22 employees tested was terminated in June 2010; however, the employee was not terminated in the South Carolina Enterprise Information System (SCEIS) until January 2011 due to the approved termination from not being completed until January 2011.

Management Response: The termination occurred during the initial start-up for SCEIS and may have been overlooked or not submitted to HR during the SCEIS start-up during a time when Human Resources was concentrating on ensuring the accuracy of active pay records. Paperwork in file shows that forms were faxed to Human Resources on 1/7/2011 for the June 1, 2010 termination action. Upon receipt of the personnel action form the action was keyed into SCEIS.