

**SOUTH CAROLINA DEPARTMENT OF EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING  
AGREED UPON PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

*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

June 25, 2013

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, 2012, 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

## TABLE OF CONTENTS

	<u>Page</u>
Independent Accountant's Report on Applying Agreed-Upon Procedures	1
Accountant's Comments	
Section A – Violations of State Laws, Rules or Regulations	5
Section B – Other Weaknesses	6
Section C – Status of Prior Findings	8
Management's Response	9



# Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## INDEPENDENT ACCOUNTANT'S 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, 2012, 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 (\$14,000 – general fund, \$220,000 – earmarked fund, \$2,400,000 – restricted fund, and \$3,300,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented as "Indirect Cost Recording", "Timeliness of Deposits", and "Operating Transfers Recording and Balances" 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 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 (\$7,200,000 – general fund, \$270,000 – earmarked fund, \$2,300,000 – restricted fund, and \$3,400,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented as "Operating Transfers Recording and Balances" 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 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 (\$7,200,000 – general fund, \$270,000 – earmarked fund, \$2,300,000 – restricted fund, and \$3,400,000 – 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 +/- 10 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 were chosen randomly. Our finding as a result of these procedures is presented as “New Hire Payment” in the Accountant’s 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 were chosen randomly. Our findings as a result of these procedures are presented as “Indirect Cost Documentation”, “Operating Transfers Recording and Balances”, and “Appropriation Transfer Documentation” in the Accountant’s Comments section of this report.

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. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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

We found no exceptions as a result of the procedures.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, 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 Independent Accountants' Report on Applying Agreed-Upon Procedures on the Department for the fiscal year ended June 30, 2011, to determine if Department had taken corrective action.

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 South Carolina Department of Education and the South Carolina Office of 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 24, 2013

**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 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.

**Timeliness of Deposits**

**Condition:** During our cash receipts testing, we noted that one deposit tested was not deposited within one week as required by Section 89.1 of the 2011-12 Appropriation Act (“Act”). The Department did not deposit the cash receipts related to the collection of teacher certification fees until December 20, 2011. The Department collected the fees on November 28, 2011.

**Cause:** The deposit was not made timely.

**Effect:** The Department did not fully comply with Section 89.1 of the Act.

**Criteria:** Section 89.1 of the Act requires cash receipts to be deposited in the State Treasurer accounts within one week of collection.

**Recommendation:** We recommend that all cash receipts be deposited into State Treasurer accounts within one week of the receipt to ensure compliance with Section 89.1 of the Act.

**New Hire Payment**

**Condition:** During our new hire testing, we noted that one employee was not paid in accordance with the pay schedule specified in South Carolina Code of Laws section 8-11-35. The employee served on a Career and Technology Education (“CATE”) standards revision committee on October 18-19, 2011, which should have been paid in the November 16, 2011 payroll. The employee received payment for serving on the committee on December 16, 2011.

**Cause:** The timesheet and other paperwork that the Department needed to compensate the employee was not submitted until November 30, 2011.

**Effect:** The Department was not fully compliant with South Carolina Code of Laws section 8-11-35.

**Criteria:** South Carolina Code of Laws Section 8-11-35 states that employees must be paid on a twice-monthly schedule as established by the State Budget and Control Board.

**Recommendation:** We recommend that paperwork related to compensation of employees be submitted to the Department in a timely manner in order to compensate employees within the appropriate periods as specified in South Carolina Code of Laws Section 8-11-35.

**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.

**Indirect Cost Recording**

- Condition: It was noted during our revenues analytics that indirect costs increased in fiscal year 2012 despite federal revenues and expenditures decreasing. Indirect costs that related to fiscal year 2011 were ultimately caught up and posted in fiscal year 2012 (as the maximum allowable indirect costs were ultimately charged).
- Cause: There was turnover in grants personnel who were responsible for posting indirect costs in fiscal year 2011. This resulted in a delay in posting indirect costs.
- Effect: Prior year indirect costs were understated and current year indirect costs were overstated.
- Criteria: Indirect costs should be posted in full each fiscal year.
- Recommendation: We recommend that indirect costs be charged and posted in full each fiscal year to allow for proper matching and for ease of tracking and re-calculation of indirect costs.

**Indirect Cost Documentation**

- Condition: During our journal entry testing, we noted that there was no supporting documentation scanned into the South Carolina Enterprise Information System (“SCEIS”) for indirect cost postings.
- Cause: SCEIS automatically calculates and posts indirect costs based on the way each grant has been set up. The indirect cost posting produces reports that can be scanned as supporting documentation; however, the grants department performs an indirect cost reconciliation at the conclusion of each grant and they do not consider it efficient to scan the information for each indirect cost posting as supporting documentation.
- Effect: Indirect costs have been correctly posted; however, there is no supporting documentation in SCEIS for each individual indirect cost posting.
- Criteria: The Comptroller General’s Accounting Policies and Procedures state that indirect cost postings require support, such as a spreadsheet, to review the indirect cost calculation.
- Recommendation: We recommend that the Department consider what appropriate supporting documentation should be attached to each indirect cost postings.

**SECTION B – OTHER WEAKNESSES (CONTINUED)**

**Operating Transfers Recording and Balances**

- Condition: During our operating transfers testing, it was noted that four operating transfers were recorded to an incorrect general ledger account/commitment item as the entries recording the transfers debited operating transfers in and credited operating transfers out (when the opposite should have occurred). This also resulted in inappropriate balances in the operating transfer accounts.
- Cause: The entries recording the operating transfers were recorded to an incorrect account.
- Effect: There were inappropriate balances in the operating transfers in and operating transfers out accounts; however, there was no net effect as the transfers that were recorded.
- Criteria: Transactions should be recorded to the correct general ledger account/commitment item.
- Recommendation: We recommend that a thorough review of operating transfers be performed to ensure that the amounts are being recorded to the appropriate accounts.

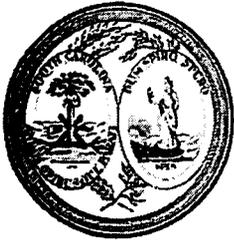
**Appropriation Transfer Documentation**

- Condition: It was noted during our appropriation transfers testing that the original documentation supporting the exact amount of two appropriation transfers could not be located. Documentation supporting an amount close to the appropriation transfer was re-created.
- Cause: The employee who recorded the transfers is no longer employed by the Department and the supporting documentation could not be located.
- Effect: Documentation supporting the exact amount of the transfers could not be located.
- Criteria: Supporting documentation for all appropriation transfers should be maintained to substantiate the appropriation transfers and ensure that the appropriation transfers were recorded correctly.
- Recommendation: We recommend that supporting documentation for all appropriation transfers be maintained.

## **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 Accountants' Comments section of the Independent Accountants' Report on the Department of Education for the fiscal year ended June 30, 2011, dated June 6, 2012. We determined that the Department has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**



# STATE OF SOUTH CAROLINA DEPARTMENT OF EDUCATION

Mick Zais  
Superintendent

1429 Senate Street  
Columbia, South Carolina 29201

Mr. David G. Phillips, CPA  
Partner  
Greene, Finney & Horton, LLP  
211 East Butler Road, Suite C-6  
Mauldin, SC 29662

Dear David;

We have reviewed the findings reported for the recent Agreed Upon Procedures Audit conducted by your firm for the year ending June 21, 2013. We sincerely appreciate the responsiveness and professionalism of your firm and we believe that our processes will be improved as a result of your findings.

Management's response is presented below as outlined in your report to us.

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

### 1. Timeliness of Deposits

During our cash receipts testing, we noted that one deposit tested was not deposited within one week as required by Section 89.1 of the 2011-12 Appropriation Act ("Act"). The Department did not deposit the cash receipts related to the collection of teacher certification fees until December 20, 2011. The Department collected the fees on November 28, 2011.

**Management Response:** During November of 2011, the Office of Educator Certification experienced software problems that inhibited staff from matching the names on the checks received for certification fees with the names and social security numbers in the agency's certification database. As a result, there was a delay in transmitting the checks and receipts to the Office of Finance for deposit. The software has been replaced to prevent such delays from occurring again.

### 2. New Hire Payment

During our new hire testing, we noted that one employee was not paid in accordance with the pay schedule specified in South Carolina Code of Laws section 8-11-35. The employee served on a Career and Technology Education ("CATE") standards revision committee on October 18-

19, 2011, which should have been paid in the November 16, 2011 payroll. The employee received payment for serving on the committee on December 16, 2011.

Management Response: The Office of Human Resources will re-emphasize to departments the timely submission of employee hours in order to be compliant with payment as established by the State.

## **SECTION B – OTHER WEAKNESSES**

### **3. Indirect Cost Recording**

It was noted during our revenues analytics that indirect costs increased in fiscal year 2012 despite federal revenues and expenditures decreasing. Indirect costs that related to fiscal year 2011 were ultimately caught up and posted in fiscal year 2012 (as the maximum allowable indirect costs were ultimately charged).

Management Response: Through a reconciliation process, it was noted that the indirect costs on a particular grant were not correctly recorded. It is the current practice that indirect costs are posted monthly and the continuation of the reconciliation process should correct this issue in the future.

### **4. Indirect Cost Documentation**

During our journal entry testing, we noted that there was no supporting documentation scanned into the South Carolina Enterprise Information System (“SCEIS”) for indirect cost postings.

Management Response: The transaction in SCEIS, GMIDCPOST, is used to track, document, and post indirect cost activity. The transaction performs Delta processing to determine the amount of IDC to post. The transaction adjusts for any journal entries that may have been processed. This process was explained to the audit team.

### **5. Operating Transfers Recording and Balances**

During our operating transfers testing, it was noted that four operating transfers were recorded to an incorrect general ledger account/commitment item as the entries recording the transfers debited operating transfers in and credited operating transfers out (when the opposite should have occurred). This also resulted in inappropriate balances in the operating transfer accounts.

Management Response: We have put internal control processes in place to ensure that this practice does not occur in the future.

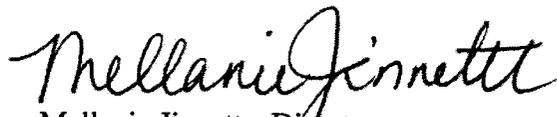
6. Appropriation Transfer Documentation

It was noted during our appropriation transfers testing that the original documentation supporting the exact amount of two appropriation transfers could not be located. Documentation supporting an amount close to the appropriation transfer was re-created.

**Management Response:** Processes have been put into place ensure all appropriation transfers include proper documentation in the future.

Again, thank you for the opportunity to provide comments regarding these findings. If you have any questions, please do not hesitate to let me know.

Sincerely,

A handwritten signature in black ink that reads "Mellanie Jinnette". The signature is written in a cursive, flowing style.

Mellanie Jinnette, Director  
Office of the Chief Financial Officer