

SOUTH CAROLINA DEPARTMENT OF EDUCATION

COLUMBIA, SOUTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2013

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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April 25, 2014

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, 2013, 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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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, 2013, 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 (\$9,000 – general fund, \$100,000 – earmarked fund, \$2,600,000 – restricted fund, and \$3,100,000 – 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.

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 (\$7,500,000 – general fund, \$140,000 – earmarked fund, \$2,700,000 – restricted fund, and \$3,000,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented as “Operating Transfers Recording and Balances” and “Account 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 (\$7,500,000 – general fund, \$140,000 – earmarked fund, \$2,700,000 – restricted fund, and \$3,000,000 – 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.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented as “Terminated Employee 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 finding as a result of these procedures is presented as "Operating Transfers Recording and Balances" 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 provisions.

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, 2013, 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, 2013, 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, 2012, to determine if Department had taken corrective action.

Our finding as a result of these procedures is presented in "Operating Transfers Recording and Balances" in the Accountant's Comments section of this report.

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

Greene, Finney & Horton, LLP

Mauldin, South Carolina

April 25, 2014

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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

Terminated Employee Payment

Condition: It was noted during our terminated employee testing that one employee was terminated in November 2012, but continued to receive payments through May 2013 in error, which is a violation of South Carolina Code of Laws Section 8-11-30.

Cause: Although the employee terminated employment with the Department in November 2012, the employee was not terminated in the Department's accounting system until May 2013.

Effect: The Department ultimately caught the overpayment and collected the approximately \$10,200 in overpayments made to the employee.

Criteria: The South Carolina Code of Laws Section 8-11-30 states that it is unlawful for a person to receive a salary from the State or any of its departments which is not due.

Recommendation: We recommend that all paperwork for terminated employees be processed timely and that terminated employees be terminated in the Department's software as appropriate.

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.

Operating Transfers Recording and Balances

- Condition:** During our operating transfers testing, it was noted that five 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 incorrect accounts.
- Effect:** There were inappropriate balances in the operating transfers in and operating transfers out accounts; however, the net effect of the error did not result in a misstatement.
- Criteria:** Transactions should be recorded to the correct general ledger accounts/commitment items.
- Recommendation:** We recommend that a thorough review of operating transfers be performed to ensure that the amounts are being recorded to the appropriate accounts. In addition, we recommend that the Department follow the transfer policy issued by the Comptroller General issued January 17, 2014, but effective July 1, 2013.

Account Balances

- Condition:** It was noted during our non-payroll expenditure analytic testing that two federal non-payroll expenditure account had credit balances as a result of keying errors when refunds were received.
- Cause:** Keying errors were made when entering the account to which the refund should have been recorded.
- Effect:** Two non-payroll federal expenditure accounts have credit balances; however, expenditures are correct in total.
- Criteria:** Expenditure accounts should generally have debit balances. In addition, refunds should be charged to the account to which the original expenditure was charged if the refund is received during the same fiscal year.
- Recommendation:** We recommend that care be taken when keying and coding items to ensure that transactions are coded to the correct accounts. In addition, we recommend that a detailed review of account balances be performed at least annually to ensure that all account balance are appropriate.

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 Accountant's Report on the Department of Education for the fiscal year ended June 30, 2012, dated June 25, 2013. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated the finding titled "Operating Transfers Recording and Balances" listed in the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



STATE OF SOUTH CAROLINA DEPARTMENT OF EDUCATION

Mick Zais
Superintendent

1429 Senate Street
Columbia, South Carolina 29201

April 25, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Dear Rich;

We have reviewed the findings reported for the recent Agreed Upon Procedures Audit conducted by Greene, Finney & Horton for the year ending June 30, 2013. We sincerely appreciate the responsiveness and professionalism of the contracted 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

I. Terminated Employee Payment

Condition: It was noted during our terminated employee testing that one employee was terminated in November 2012, but continued to receive payments through May 2013 in error, which is a violation of South Carolina code of Laws Section 8-11-30.

Management Response: The employee was not terminated in November 2012 but actually started continuous leave at that time. The employee went on leave without pay initially January 3, 2013 through March 5, 2013. The HR office was not timely notified the employee did not actually return to work. The LWOP was extended through May 12, 2013. However, the employee was overpaid at that point. The employee was contacted and immediately refunded the net payments received to clear the claim generated by SCEIS. The employee actually terminated on May 12, 2013. Procedures have been put in place to minimize this type of error in the future.

SECTION B – OTHER WEAKNESSES

1. Operating Transfers Recording and Balances

Condition: During our operating transfers testing, it was noted that five 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: The Comptroller General issued a transfer policy on January 17, 2014, to eliminate the inconsistencies in the use of the operating transfer general ledger accounts by state agencies. SCDE will follow this policy and will perform a thorough review of operating transfers to ensure that the amounts are being recorded appropriately.

2. Account Balances

Condition: It was noted during our non-payroll expenditure analytic testing that two federal non-payroll expenditure accounts had credit balances as a result of keying errors when refunds were received.

Management Response: The SC Department of Education periodically reviews posted general ledger codes in order to detect and correct keying errors during the fiscal year. In addition, management will perform a detailed review of account balances to ensure that all balances are appropriate.

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,



Mellanie Jinnette
Chief Financial Officer