

**JOHN DE LA HOWE SCHOOL
MCCORMICK, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2011

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 24, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
John de la Howe School
McCormick, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of John de la Howe School (the School), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2011, in the areas addressed. The School'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 agency'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 earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$9,200 – earmarked fund, \$7,500 – restricted fund, and \$3,000 – federal fund) and ± 10 percent.

The individual transactions were chosen randomly. Our findings as a result of these procedures are presented in Supporting Documentation, Transaction Coding and Timeliness of Deposits 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 agency's policies and procedures and State regulations, were bona fide disbursements of the School, 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$27,300 – general fund, \$9,300 – earmarked fund, \$4,100 - restricted fund, and \$3,500 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of the procedures are presented in Supporting Documentation, Transaction Coding, and Expenditure Cut-Off 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 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 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 agency'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 earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$27,300 – general fund, \$9,300 – earmarked fund, \$4,100 - restricted fund, and \$3,500 – 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 agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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 agency's policies and procedures and State regulations.

We found no exceptions as a result of the procedures.

5. **School Bank Account**

Reconciliations

- We obtained all monthly reconciliations prepared by the School for the year ended June 30, 2011, and inspected selected reconciliations of balances in the School's accounting records to those reflected on the bank statements 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 School's general ledger, agreed the applicable amounts to the bank statements, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the School's accounting records.

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 agency'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.

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 agency's policies and procedures and State regulations, were bona fide disbursements of the School, 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 found no exceptions as a result of the procedures.

6. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the School'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.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2011, prepared by the School 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.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

8. **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 School and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions and if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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 School resulting from our engagement for the fiscal year ended June 30, 2010, to determine if the Agency had taken corrective action.

Our findings as a result of these procedures are presented in Supporting Documentation, Transaction Coding, Personal Property Inventory, Reporting Packages, and Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
John de la Howe School
August 24, 2012

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 John de la Howe School and is not intended to be and should not be used by anyone other than these specified parties.

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

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 agency 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.

SUPPORTING DOCUMENTATION

The accountant's comment titled Transaction Approval and Documentation, reported in the State Auditor's Report on the School for the fiscal year ended June 30, 2010, identified several transactions that lacked adequate documentation to support accounting transactions. Our testing of fiscal year 2011 receipt and disbursement transactions identified several transactions which lacked adequate support documentation.

Our testing of cash receipt transactions disclosed that the School recorded the date of deposit but not the date the cash was received. Also the School could either not provide adequate documentation or the documentation did not agree to the agency's accounting records for three receipt transactions.

We also found that the School processed two expenditure transactions that were not processed in accordance with State laws, rules or regulations and/or School policy. One expenditure transaction did not document when the goods were received and documentation for another expenditure transaction did not demonstrate that the procurement met the State's criteria for an emergency procurement.

Effective internal controls require all transactions to be adequately supported by source documentation. Additionally, Section 11-35-1570 of the South Carolina Consolidated Procurement Code explains the documentation requirements for emergency procurements which includes a written determination of the basis for the emergency be maintained in the contract file.

We recommend that the School implement procedures to ensure that all accounting transactions processed through its accounting system be adequately supported by the required source documentation.

TRANSACTION CODING

The accountant's comment titled Disbursements Coding, reported in the State Auditor's Report on the School for the fiscal year ended June 30, 2010, identified three disbursement transactions that were charged to the incorrect general ledger expenditure accounts. Our transaction testing of fiscal year 2011 receipts and disbursements identified similar instances of miscoded transactions.

Our testing of revenue transactions found the following coding exceptions: Utility payments associated with the rental of residences were coded as residence rent income for the five transactions that were paid for on the same check as the monthly residence rent payment. When utilities were paid on a separate check from the residence rent, the school properly offset the applicable utility expense account. Another receipt transaction tested, for the sale of surplus property, was coded as sale of goods. In different instances, the receipt of federal grant funds from another state agency (SCEIS Account 4890100000) was charged to an account used to record revenue received directly from the federal grantor (4280020000) and to a miscellaneous transfer general ledger account.

One disbursement transaction tested was for the purchase of paper for copy machines (5030020000). This expenditure was improperly charged to data process supplies (5030060000).

Effective internal controls require safeguards to ensure that transactions are properly recorded. The Comptroller General's Office Policies and Procedures include the specific definitions for coding transactions to the proper revenue and expenditure accounts.

We recommend that the School strengthen its internal controls over the recording of financial transactions. The School should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

EXPENDITURE CUT-OFF

Two of twenty-five fiscal year 2011 disbursement transactions selected for testing were recorded in the wrong fiscal year. Both of the transactions were for services received in fiscal year 2010. The supporting documentation indicates that the School was billed in time to record the transactions in the proper fiscal year.

Comptroller General year-end close-out procedures require that expenditures are recorded in the same fiscal year that the good or service occurs.

We recommend that the School review procedures to ensure compliance with Comptroller General year-end close-out procedures.

TIMELINESS OF DEPOSITS

Our comment titled Supporting Documentation reported that the School did not always document the date the cash transaction was received. Because a receipt date is not documented, we are unable to determine if the receipt was deposited timely.

The School does document the receipt date for the sale of meals revenue. The date of receipt is documented on daily logs kept for this revenue source. We determined that cash receipts associated with eight sale of meals receipt logs were not deposited timely in accordance with State law. We found that the cash receipts were deposited between ten and twenty-four days after the cash was received.

South Carolina Code of Laws Section 11-13-120 states, "All state departments, boards, bureaus, commissions or other state agencies charged with the collection of any taxes, licenses, fees, interest or any income to the State shall, with ordinary business promptness, deposit the same when collected with or to the credit of the State Treasurer." Section 89.1 of the fiscal year 2011 Appropriation Act states, "...all general state revenues derived from

taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services... must be remitted to the State Treasurer at least once each week.”

We recommend that the School review and strengthen its procedures to ensure that receipts are adequately documented and are deposited timely and in accordance with State law.

PERSONAL PROPERTY INVENTORY

The accountant’s comment titled Personal Property Inventory, reported in the State Auditor’s Report on the School for the fiscal year ended June 30, 2010, reported that the School had not conducted an annual inventory of its personal property during fiscal year 2010 as required by South Carolina law. For fiscal year 2011 we determined that the School again did not conduct an inventory of its personal property, however, we determined that the School was developing a plan to comply with Section 10-1-140 of the South Carolina Code of Laws, as amended.

Section 10-1-140 of the South Carolina Code of Laws, as amended, 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 School complete its plan as soon as possible and implement the procedures to ensure compliance with Section 10-1-140 of the South Carolina Code of Laws, as amended.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." Our testing of the Department's reporting packages disclosed the following exceptions:

Master Reporting Checklist

The Master Reporting Checklist uses a series of questions designed to ensure state agencies report all information necessary for statewide financial reporting. Our review of the Master Reporting Checklist revealed several questions that were answered incorrectly or could not be supported.

Based on our testing, we determined that the School should have submitted a Miscellaneous Revenues Reporting Package and an Operating Leases Reporting Package but because it answered questions incorrectly on the Master Reporting Checklist the School did not submit the required reporting packages. The School's response to another question on the Master Reporting Checklist documented that it was required to file a Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package. The School could not demonstrate that it had submitted the required reporting package or why it was not filed.

Timely Submissions

The accountant's comment titled Closing Packages, reported in the State Auditor's Report on the School for the fiscal year ended June 30, 2010, reported that the School did not submit all of its closing packages timely. Our testing of the Department's reporting packages for the year ended June 30, 2011 revealed that five reporting packages were submitted several days to several months after their respective due dates.

We recommend that the School develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The accountant's comment titled Schedule of Federal Financial Assistance, in the State Auditor's Report on the School for the fiscal year ended June 30, 2010, identified deficiencies associated with our testing of the School's schedule of federal financial assistance. Although we determined that the School had taken some corrective action to address our prior year finding we did note some deficiencies in our fiscal year 2011 testing. Among the deficiencies noted were the reporting of inaccurate grant numbers and the failure to adequately identify ARRA funding.

The State Auditor's Office letter of instruction for the schedule of federal financial assistance details the reporting requirements for state agencies. Adherence to the letter of instructions impacts the accuracy of statewide financial reporting for A-133 requirements.

We recommend the carefully follow the State Auditor's Office letter of instruction when completing the schedule of federal financial assistance.

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 School for the fiscal year ended June 30, 2010, and dated September 17, 2010. We determined that the School has taken adequate corrective action on each of the findings except as noted below.

<u>2010 Finding</u>	<u>2011 Finding</u>
Transaction Approval and Documentation	Supporting Documentation
Disbursements Coding	Transaction Coding
Personal Property Inventory	Personal Property Inventory
Closing Packages	Reporting Packages
Schedule of Federal Financial Assistance	Schedule of Federal Financial Assistance

MANAGEMENT'S RESPONSE



John de la Howe School

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October 30, 2012

Mr. Richard H. Gilbert Jr., CPA
Deputy State Auditor
Office of State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

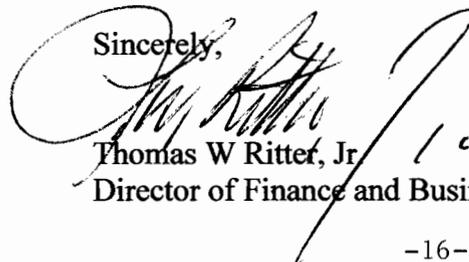
Dear Mr. Gilbert:

We have reviewed the preliminary draft of the report, dated October 19, 2012, resulting from your performance of agreed-upon procedures to the accounting records of John de la Howe School (the School) as conducted by the State of South Carolina Office of the State Auditor for the fiscal year ended June 30, 2011. As requested, enclosed is a current directory of our Board of Trustees along with their mailing and e-mail addresses.

Prior to responding to the specific matters contained in the above-referenced report, management would like to note, for informational purposes only, that unfortunately the School experienced unprecedented, wholesale staff turnover within its Finance Division during the first quarter of FY 2012. Consequently, none of the current finance staff was employed by the School during the fiscal year ended June 30, 2011; the period for which the agreed-upon procedures engagement was conducted.

Nevertheless, detailed response by management of John de la Howe School to such matters as discussed in the Accountant's Comments is attached for inclusion in the final report. Please accept this letter as authorization to release the report; as amended to include our enclosed written response.

Sincerely,



Thomas W Ritter, Jr.
Director of Finance and Business Operations

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MANAGEMENT'S RESPONSE

Following are management's responses regarding the Accountant's Comments included in the report resulting from performance of agreed-upon-procedures to the accounting records of the John De La Howe School for the fiscal year ended June 30, 2011.

1. **Supporting Documentation**

Management has implemented procedures whereby all receipts are copied and date stamped when received. Copies of all receipts and corresponding validated bank deposit slips are retained and images scanned as supporting documentation for and evidence of prompt deposit.

The School has strengthened its internal controls to ensure all expenditure transactions are adequately supported and that the procurement of all goods and services is properly documented and in compliance with all prevailing laws and regulations.

2. **Transaction Coding**

John de la Howe School has an entirely new finance staff dedicated to the accurate and timely processing and reporting of all financial transactions. All transaction coding is subject to detailed review prior to posting in the pertinent SCEIS accounting subsystem. The General Ledger is also reviewed for unusual transactions during the preparation of detailed financial reports on a quarterly basis.

3. **Expenditure Cut-Off**

There were two expenditure items recorded in beginning of fiscal year 2011 that were for services received in the fiscal year ended June 30, 2010. It should be noted that improved reporting controls were implemented for expenditure cut-off reporting during the 2011 fiscal year end process and that no expenditure cut-off issues were noted for the fiscal year end.

Examples of implemented controls include, among other items, the provision of clear instructions regarding year end cut-off procedures to staff responsible for payment processing and the performance of a thorough supervisory review of transactions occurring between June 30th and the reporting date to ensure payments are recorded in the appropriate accounting year

4. **Timeliness of Deposits**

Management has implemented procedures whereby all receipts are copied and date stamped when received. Copies of all receipts and corresponding validated bank deposit slips are retained and images scanned as supporting documentation and evidence of prompt deposit. Management has also taken steps to ensure cash receipts from the sale of meals are delivered to the Finance Division on a daily basis and are deposited within five days of receipt.

5. **Personal Property Inventory**

The School fully appreciates the importance of the requirement that a personal property inventory be conducted on an annual basis and has developed and is currently implementing a plan to comply with Section 10-1-140 of the South Carolina Code of Laws as amended for fiscal year 2012.

6. **Reporting Packages – Master Reporting Checklist**

The School experienced unexpected turnover in key finance staff positions during the reporting period for fiscal year 2011. The School agrees that several questions on the Master Reporting Checklist were answered incorrectly for fiscal year 2011 and believes the errors to be directly related to the lack of experienced accounting staff and management at that time. The School has reviewed all questions on the Master Reporting Checklist submitted for Fiscal year 2012 and believes them to have been answered correctly.

7. **Reporting Packages – Timely Submissions**

The delayed submission of five reporting packages to the Office of the Comptroller General was the direct result of the unexpected turnover in key staff positions during the reporting period for fiscal year 2011. The School has taken the necessary steps to ensure timely submission of such information in the future. All reporting packages for fiscal year 2012 have been submitted in a timely fashion.

8. **Schedule of Federal Financial Assistance**

The School fully understands and appreciates the importance of statewide financial reporting as required by OMB Circular A-133 and has implemented the necessary procedures to ensure that the State Auditor's Office letter of instruction is carefully followed when completing the Schedule of Federal Financial Assistance. Further, the School believes the Schedule of Federal Financial Assistance for fiscal year 2012 to be materially correct as submitted.

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