

SOUTH CAROLINA JOHN DE LA HOWE SCHOOL

MCCORMICK, 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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DEPUTY STATE AUDITOR

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June 4, 2014

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

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the John de la Howe School for the fiscal 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 John De La Howe School (the "School") and by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2013, 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 School'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 School's accounting records. The scope was based on agreed upon materiality levels (\$1 – general fund, \$5,600 – earmarked fund, \$7,500 – restricted fund, and \$1,800 – federal fund) and +/- 10 percent.

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

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 School'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 School's accounting records. The scope was based on agreed upon materiality levels (\$3,100 – general fund, \$2,500 – earmarked fund, \$9,000 – restricted fund, and \$1,800 – 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 School'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 School'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 School's accounting records. The scope was based on agreed upon materiality levels (\$3,100 – general fund, \$2,500 – earmarked fund, \$9,000 – restricted fund, and \$1,800 – 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 School's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented as "Payroll Disbursements and Expenditures" 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 School'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 "Journal Entries and Appropriation Transfers" in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the School to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger, and selected entries were processed in accordance with the agency'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 "Subsidiary Ledger – Auxiliary Account" in the Accountant's Comments section of this report.

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the School for the year ended June 30, 2013, and inspected selected reconciliations of balances in the School's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the School's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, 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 School'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 obtained all monthly reconciliations prepared by the School.

6. **Composite Reservoir Accounts (continued)**

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 School'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.

7. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 findings as a result of these procedures are presented as "Reporting Packages and Capital Asset Inventory" in the Accountant's Comments section of this report.

9. **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 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; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **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 Applying Agreed-Upon Procedures on the School resulting from the State Auditor's engagement for the fiscal year ended June 30, 2011, to determine if School had taken corrective action. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2012.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the governing body and management of the School 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
May 15, 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 School 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.

Payroll Disbursements and Expenditures

- Condition: During our payroll testing, we noted where payroll benefits related to one employee was not properly allocated between funds.
- Cause: An employee’s pay was split between the general fund and a restricted fund but all of the benefits were coded to the restricted fund.
- Effect: The Department was not fully compliant with South Carolina Code of Laws section 8-11-194.
- Criteria: South Carolina Code of Laws Section 8-11-194 states that agency’s operations covered by funds other than the general fund appropriations must pay from such other sources a proportionate share of the employee benefits.
- Recommendation: For employee’s pay where the employee is split between various funds, the employee’s benefits should also be split proportionately between the various funds.

Capital Asset Inventory

- Condition: The School did not perform an annual inventory of its capital assets.
- Cause: The inventory was not completed because of significant turnover in the finance department and because the School could not produce a current listing of its capital assets inventory.
- Effect: The Department was not fully compliant with South Carolina Code of Laws section 10-1-140.
- Criteria: South Carolina Code of Laws section 10-1-140 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 property under his supervision, except expendables.
- Recommendation: We recommend the School ensure its capital asset listing is current and implement procedures to ensure that it conducts an annual inventory of its capital assets.

Reporting Packages

- Condition: It was noted during our reporting package testing there were several reporting packages that were not submitted in a timely manner based on deadlines provided by the Comptroller General.
- Cause: The reporting packages were not submitted timely mainly due to significant turnover in the finance department.
- Effect: The School is not submitting timely financial information which could delay the timely completion and issuance of the State's financial statements.
- Criteria: Reporting packages should be submitted in accordance with the Comptroller General's Office reporting package submission schedule.
- Recommendation: We recommend that reporting packages be submitted in a timely manner based on the deadlines provided by the Comptroller General.

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.

Journal Entries and Appropriation Transfers

- Condition: During our journal entry and appropriation transfer testing, we noted that one journal entry and five appropriation transfers did not have supporting documentation. We also were unable to review approval of one appropriation transfer in SCEIS as there was no approval documented in the system.
- Cause: The School was unable to provide supporting documentation for these entries and transfers thus not all attributes were tested as a result of not being able to review supporting documentation.
- Effect: Without documentation to explain the purpose of the entry/transfer, improper entries or transfers could be made by the preparer, and the reviewer/approver may not detect the error.
- Criteria: Proper support for journal entries and transfers should be kept to document why the entry was made. Proper approval for all transfers should also be documented.
- Recommendation: We recommend the School keep proper supporting documentation for all entries and transfers and obtain proper approval for all transfers made.

Subsidiary Ledger – Auxiliary Account
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- Condition: During our subsidiary ledger testing, we selected several disbursements to review and noted 16 out of 24 disbursements tested did not have proper supporting documentation and 1 out of 24 disbursements tested was not properly approved.
- Cause: Supporting documentation was not kept with the disbursement records and could not be found.
- Effect: The School is not able to support transactions recorded in its subsidiary ledger.
- Criteria: Proper supporting documentation and approval should be maintained for all disbursements.
- Recommendation: We recommend that all disbursements have proper supporting documentation attached with the disbursement records or the location of the supporting documentation should be annotated on the disbursement document. All disbursements should also be properly approved and evidence of the approval should be maintained with the documentation.

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 Independent Accountant’s Report on Applying Agreed-Upon Procedures on the School for the fiscal year ended June 30, 2011, dated May 15, 2012. We applied no procedures to the School’s accounting records and internal controls for the year ended June 30, 2012. We determined that the School has taken adequate corrective action on each of the findings except the one that related to the reporting packages and the capital asset inventory, both of which are noted above again as findings for June 30, 2013.

MANAGEMENT'S RESPONSE



John de la Howe School

South Carolina's Home for Children



Dr. Danny R. Webb
Interim President

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May 15, 2014

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 May 7, 2014, resulting from the performance of agreed-upon procedures to the accounting records of John de la Howe School (the School) as conducted by Greene, Finney & Horton, LLP for the fiscal year ended June 30, 2013.

Prior to responding to the specific matters contained in the report, management would like to note that the School continued to experience staff turnover within its Finance Division. Consequently, only one of the current finance staff was employed by the School during the entire fiscal year ended June 30, 2013 — the period for which the agreed-upon procedures engagement was conducted. The current Director of Finance began work on May 7, 2013. In addition to the turnover, the Finance Division had not been adequately staffed. Currently the Finance office is fully staffed. The new staff is taking advantage of training opportunities to ensure that the procedures will meet prevailing laws and regulations.

Management's response to specific matters 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,

Dr. Danny R. Webb
Interim President

Viola Robinson Faust
Director of Finance and Business Operations

John De La Howe School
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, 2013.

Payroll Disbursements and Expenditures

The School fully appreciates the importance of the requirement to comply with Section 8-11-194 of the South Carolina Code of Laws. The School notes that the payment not being allocated correctly was due to staff turnover. The School has put procedures in place to ensure that an employee's benefit payments are in alignment with funds used to pay the employee's salary.

Capital Asset Inventory

The School fully appreciates the importance of the requirement that a personal property inventory be conducted on an annual basis. The school is working on a procedure to comply with Section 10-1-140 of the South Carolina Code of Laws.

Reporting Packages – Timely Submissions

The delayed submission of reporting packages to the Office of the Comptroller General was the direct result of the turnover in key staff positions during the reporting period for fiscal year ending June 30, 2013. The School has taken the necessary steps to ensure timely submission of such information in the future.

Journal Entries and Appropriation Transfers

The School has strengthened its internal controls to ensure that journal vouchers and transfers have the proper approval and all proper supporting documentation is maintained to show why the entry was made.

Subsidiary Ledger – Auxiliary Account

The School has strengthened its internal controls to ensure all proper supporting documentation is maintained and included with the disbursement records. The agency has put procedures in place to ensure expenditure transactions are adequately supported and that the procurement of all goods and services is properly documented and in compliance with all laws and regulations.