

**SOUTH CAROLINA OFFICE OF
FIRST STEPS TO SCHOOL READINESS
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2006

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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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 9, 2007

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Office of First Steps to School Readiness (the Office) and by the management of the South Carolina State Department of Education (the Department), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2006, in the areas addressed. The Office'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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the restricted fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$94,600 – restricted 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 agency's policies and procedures and State regulations, were bona fide disbursements of the Office, 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, 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 (\$84,500 – general fund, \$98,100 – restricted fund, and \$10,300 – 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 agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, 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 (\$84,500 – general fund, \$98,100 – restricted fund, and \$10,300 – 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 ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Final Pay Calculation and Incorrect Pay Period in the Accountant's Comments section of this report.

4. **Journal Entries**

- We inspected selected recorded journal entries 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.

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

5. **General Ledger and Subsidiary Ledgers**

The Office is a separate program within the State Department of Education budgetary unit of the State of South Carolina.

- We inspected selected entries and monthly totals in the subsidiary records of the Department 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 transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

The Office's accounts are reconciled by the State Department of Education.

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

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

7. Appropriation Act

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

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

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the Office and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

The Office's federal grants are included in the State Department of Education's schedule of federal financial assistance.

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Department 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
May 9, 2007

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 the Office 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

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.

FINAL PAY CALCULATION

We tested all employment terminations during fiscal year 2006. We noted an overpayment was made in one of the seven final pay transactions tested. This overpayment occurred because the termination information was received by the payroll office of the State Department of Education late. The employee terminated employment after working five days of the pay period and therefore the final pay should have been calculated as a partial payment. The employee was paid for the entire pay period and was overpaid \$642. The Office subsequently recovered the overpayment.

Section 8-11-30 of the 1976 Code of Laws states that "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employment of the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees of any department of the State...".

We recommend procedures be implemented and followed to ensure proper payment to employees who terminate their employment. The State Department of Education's payroll office should have immediate notification of terminations.

INCORRECT PAY PERIOD

We tested all employees hired during fiscal year 2006. We noted an exception in one of the eleven new employees tested. The part-time employee began work June 8, 2005, but did not receive his first paycheck until August 1, 2005. He should have been paid on July 1, 2005. The payroll transaction was processed late because the employee's timesheet was not submitted timely for processing.

Section 8-11-30 of the 1976 Code of Laws states that “To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2nd of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues thereafter on a twice monthly schedule as established by the State Budget and Control Board.”

We recommend the Office implement procedures to ensure the timesheets of hourly employees are submitted timely to enable the employee pay to be in accordance with the state pay schedule.

ACCOUNTING FEES

Section 11-35-1250 of the 1976 Code of Laws states, “No contract for auditing or accounting services shall be awarded without the approval of the State Auditor except where specific statutory authority is otherwise provided.”

The Office did not obtain approval to procure accounting services related to the Teachers Education and Compensation Helps (T.E.A.C.H.) federal program. Under the terms of the contract an accounting firm opens a checking account, deposits funds into the account, writes checks, and reconciles the account. These are typically procedures that are required by Section 11-3-185 of the South Carolina Code of Laws to be performed by the Office of the Comptroller General and Office of the State Treasurer.

We recommend the Office contact the Office of the State Treasurer to obtain authorization to establish a separate checking account. If such approval is received the Office should contact the Office of the State Auditor to obtain approval to enter into the accounting/auditing service contract.

MANAGEMENT'S RESPONSE

FIRST STEPS

Getting children ready for school.

July 23, 2007

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

Dear Mr. Gilbert:

Thank you for sending the preliminary draft of the State Auditor's Report on Applying Agreed-Upon Procedures for South Carolina Office of First Steps to School Readiness ending June 30, 2006. Please accept this letter as authorization to release the report and our responses to the Accountant's Comments below.

Final Pay Calculation

Corrective Action: The employee in question worked at The Center for Child Care Career Development (CCCCD), located in Greenville, SC. All employment termination documents are processed in Columbia, at the SC Department of Education, after review in the SC First Steps Office. To ensure all final employment payments are made in a timely fashion, CCCCDD officials now send their documents directly to SDE for processing, with simultaneous notification of the SC First Steps Office.

Incorrect Pay Period

Corrective Action: The employee in question worked for only a few days as a temporary employee and submitted a timesheet after a trip out of town, causing a late payment by the SC Department of Education. Temporary employees must uniformly complete timesheets for submission to SC First Steps (and subsequently to the SC Department of Education) during the pay period in which work is completed.

FIRST STEPS

Getting children ready for school.

Accounting Fees

Corrective Action: The SC First Steps Office accepts your recommendation and is in communication with the State Treasurer to obtain authorization to establish a separate checking account for the T.E.A.C.H program. We will notify your office immediately of the Treasurer's response.

Thank you for your report and ongoing staff assistance to ensure compliance by South Carolina First Steps to School Readiness. Should you have any questions regarding the corrective actions as described above, please contact Rodney Jenkins at (803) 734-0674.

Sincerely



Susan W. DeVenny
Director

Cc: Rodney Jenkins
John Cooley

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