

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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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

May 13, 2008

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina Office of 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, 2007, 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 (\$117,700 – 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 (\$108,200 – general fund, \$97,900 – restricted fund, and \$22,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Code Descriptions and Recording of Expenditure in Wrong Fiscal Year 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 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.

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- 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 (\$108,200 – general fund, \$97,900 – restricted fund, and \$22,700 – 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. Our finding as a result of these procedures is presented in 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 Office 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, 2007, 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.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, 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, 2007, 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 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
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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 the Office resulting from our engagement for the fiscal year ended June 30, 2006, to determine if Agency had taken corrective action.

Our finding as a result of these procedures is presented in Incorrect Pay Period 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 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.



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.

INCORRECT PAY PERIOD

We found that two of the nine newly hired employees tested were not paid in accordance with the State's pay schedule. Both employees started work on January 1, 2007, but did not receive a paycheck until March 1, 2007. The check represented pay earned for three pay periods. The delay occurred because paperwork was not submitted to the Department of Education Payroll Department in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues there after on a twice monthly schedule as established by the State Budget and Control Board."

We recommend that the Office implement procedures to ensure that all employees are paid in accordance with the State's prescribed pay schedule.

OBJECT CODE DESCRIPTIONS

We noted five of twenty five expenditure vouchers tested were charged to object codes which did not correspond to the object code description in the Comptroller General's Statewide Accounting and Reporting (STARS) manual. The object code used was 1662, which is described in the STARS manual as Allocations – EIA – Junior Scholars - Private Colleges and Universities. The Department of Education describes object code 1662 as Allocation EIA – Other Entities. A similar finding was reported in the June 30, 2006 Department of Education agreed upon procedures report.

Based on our review it appears that the Department of Education has defined several minor object codes for Education Improvement Act (EIA) allocations differently from the STARS definition. Object code definitions should agree with those used by the Comptroller General's Office.

We recommend the Office modify its chart of accounts to ensure that its object code descriptions are consistent with STARS.

RECORDING OF EXPENDITURE IN WRONG FISCAL YEAR

We tested twenty-five expenditures transactions for proper cut off and noted one expenditure was recorded in the wrong fiscal year. The expenditure was for non-state employee travel that occurred in June 2007 but was recorded in fiscal year 2008. The voucher appeared to have been submitted timely but mistakenly paid as fiscal year 2008 travel.

Proviso 72.2 of the 2006-2007 Appropriation Act states, "the sums of money set forth in this part, ...to meet the ordinary expenses of state government for fiscal year 2006-07..."

We recommend the Office implement procedures to ensure that expenditures are recorded in the proper fiscal year.

SECTION B - 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 First Steps to School Readiness for the fiscal year ended June 30, 2006, and dated May 9, 2007. We determined that the Office has taken adequate corrective action on each of the findings, except we have repeated a finding entitled Incorrect Pay Period.

MANAGEMENT'S RESPONSE

July 7, 2008

Ms. Sue Moss, CPA
SC Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Ms. Moss:

This letter is to authorize the release of the SC First Steps report. I do not have any comments regarding the outcome of the report.

Thanks,



Susan DeVenny

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