

SOUTH CAROLINA OFFICE OF FIRST STEPS

COLUMBIA, SOUTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2012

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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June 28, 2013

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
South Carolina Office of First Steps to
School Readiness
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 Office of First Steps to School Readiness for the year ended June 30, 2012, 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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**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 Office of First Steps (the "Office") and by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2012, 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 Office'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 Office's accounting records. The scope was based on agreed upon materiality levels (\$5,100 – general fund, \$2,700 – earmarked fund, \$120,000 – restricted fund, and \$57,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in "Indirect Cost Recording" 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 Office'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 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 Office's accounting records. The scope was based on agreed upon materiality levels (\$82,000 – general fund, \$16 – earmarked fund, \$110,000 – restricted fund, and \$71,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in "Expenditure Account Coding" and "Expenditure 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 Office'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 Office'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 Office's accounting records. The scope was based on agreed upon materiality levels (\$82,000 – general fund, \$16 – earmarked fund, \$110,000 – restricted fund, and \$71,000 – 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 Office's accounting records.

3. **Payroll Disbursements and Expenditures (Continued)**

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in “Termination Paperwork” 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 Office’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. **Appropriation Act**

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

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, 2012, 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 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 in “Reporting Package Completion Timeliness”, “Grants and Contributions Reporting Package and Schedule of Federal Financial Assistance”, and “Operating Leases Reporting Package” in the Accountant’s Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, prepared by the Office 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 supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in “Grants and Contributions Reporting Package and Schedule of Federal Financial Assistance” in the Accountant’s Comments section of this report.

8. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountants' Comments section of the State Auditor's Report on the Office for the fiscal year ended June 30, 2008, to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the years ended June 30, 2009, 2010, and 2011.

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 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 South Carolina Office of the State Auditor, and the governing body and management of the South Carolina Office of First Steps 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
June 26, 2013

ACCOUNTANT'S COMMENTS

SECTION A – OTHER WEAKNESSES

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 Office 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 while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

Indirect Costs Recording

- Condition: It was noted during our revenues analytics that indirect costs increased in fiscal year 2012 despite federal revenues and expenditures decreasing. Indirect costs that were related to fiscal year 2011 were ultimately caught up and posted in fiscal year 2012 (as the maximum allowable indirect costs were ultimately charged).
- Cause: There was some turnover in grants personnel who were responsible for posting the indirect costs in fiscal year 2011, this resulted in a delay in posting indirect costs.
- Effect: Prior year indirect costs were understated and current year indirect costs were overstated.
- Criteria: Indirect costs should be posted in full each fiscal year.
- Recommendation: We recommend that indirect costs be charged and posted in full each fiscal year to allow for proper matching and for ease of tracking and re-calculation of indirect costs.

Expenditure Account Coding

- Condition: It was noted during our non-payroll expenditure analytics that the Office issued a new purchase order for the purchase of goods/services when they became their own business area; however, the new purchase order was inadvertently coded to an incorrect account. As a result, all subsequent payments made under that purchase order were charged to an incorrect general ledger account.
- Cause: An incorrect account code was used on the purchase order when issued.
- Effect: Account #58K60000-5021480000 Promotions expenditures were overstated and account #58K60000-5021400000 Education and Training – Non-State expenditures were understated. Total expenditures were unaffected.
- Criteria: Expenditures should be charged to a correct account when processed.
- Recommendation: We recommend that general ledger account numbers on purchase orders be reviewed prior to payments being made.

SECTION A – OTHER WEAKNESSES (CONTINUED)

Expenditure Account Balances

- Condition:** It was noted during our non-payroll expenditure analytics that two non-payroll expenditure accounts and one operating transfer account had credit balances rather than debit balances.
- Cause:** Journal entries were made to the non-payroll expenditure accounts to reclassify expenditures; however, the journal entries re-classified more expenditures than were originally charged. The operating transfer account had a credit balance due to incorrect account coding on the original journal entry.
- Effect:** The expenditure and operating transfer accounts were misstated; however, there was no net effect on total expenditures.
- Criteria:** Expenditure and operating transfer out accounts should generally have debit balances and journal entries used to reclassify expenditures should only reclassify the amount of expenditures available to reclassify.
- Recommendation:** We recommend that a thorough review of account numbers assigned to expenditures or operating transfer transactions be performed before transactions are posted and that a review of account balances should be done on a periodic basis to ensure that balances in these accounts appear reasonable.

Termination Paperwork

- Condition:** It was noted during our test of employees who terminated employment that termination paperwork and the termination in the South Carolina Enterprise Information System (“SCEIS”) for two employees was not completed and processed in a timely manner. Both employees terminated employment on July 16, 2010; however, their termination documentation was not completed until October 16, 2011. One of the employees was terminated in SCEIS on December 2, 2011 and the other employee was terminated in SCEIS on March 2, 2012.
- Cause:** The termination paperwork was not processed in a timely manner.
- Effect:** Though the paperwork and termination in SCEIS were not processed in a timely manner, the employees did not receive any extra benefits and were paid correctly.
- Criteria:** Termination paperwork should generally be processed in the pay period in which the termination occurs.
- Recommendation:** We recommend that termination paperwork be processed in a timely manner to limit the risk of overpayment or incorrect payments made to employees who terminate employment.

SECTION A – OTHER WEAKNESSES (CONTINUED)

Reporting Package Completion Timeliness

- Condition:** It was noted during our reporting packages test work that five of the nine reporting packages were submitted after the due date specified on the letter of instructions.
- Cause:** Fiscal year 2012 was the first year that the Office had completed and submitted reporting packages as the Office was a part of the Department of Education in prior years; thus, delays were encountered when completing the reporting packages for the first time.
- Effect:** The reporting packages were not submitted timely.
- Criteria:** The letter of instructions for each reporting packages specified a due date for the reporting package being completed.
- Recommendation:** We recommend that the Office submit reporting packages by the due dates specified on the letter of instructions for each reporting package.

Grants and Contributions Reporting Package and Schedule of Federal Financial Assistance

- Condition:** The total federal revenues and expenditures reported on the Grants and Contributions Reporting Package and on the Schedule of Federal Financial Assistance (“SFFA”) were approximately \$1.1 million less than the federal revenues and expenditures recorded in SCEIS.
- Cause:** The Comptroller General’s (“CG”) Office provided the Office with a report detailing federal revenues expenditures for the Office. The CG instructed the Office to use this report in completing the grants and contributions reporting package and the SFFA; however, the report did not include all federal revenues and expenditures recorded in the Office’s accounting records in SCEIS.
- Effect:** The total federal revenues and expenditures reported on the Grants and Contributions Reporting Package and the SFFA were understated by approximately \$1.1 million.
- Criteria:** The Grants and Contributions Reporting Package and SFFA require that the amounts reported agree to the Office’s accounting records.
- Recommendation:** We recommend that the Office verify that the report provided by the Comptroller General’s Office agrees to the Office’s accounting records prior to completion of the Grants and Contributions Reporting Package and SFFA.

SECTION A – OTHER WEAKNESSES (CONTINUED)

Operating Leases Reporting Package

- Condition: Eight leases reported on the Operating Leases Reporting Package did not include the correct breakdown of future minimum rentals as future minimum lease payments were not included in the correct fiscal year for the entire lease.
- Cause: Fiscal year 2012 was the Office’s first year in completing the Operating Leases Reporting Package; thus, errors occurred in the completion of the package.
- Effect: The future minimum rentals schedule in the Operating Leases Reporting Package was understated as the schedule did not include all lease payments to be made in future fiscal years.
- Criteria: The Operating Leases Reporting Package letter of instructions requires that the future minimum rentals schedule be completed using the information derived from the lease documents.
- Recommendation: We recommend that the Office include all future minimum rental payments on the future minimum rentals schedule in the Operating Leases Reporting Package.

SECTION B – 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 Accountants' Report on the South Carolina Office of First Steps for the fiscal year ended June 30, 2008, dated April 23, 2009. We applied no procedures to the Office's accounting records and internal controls for the years ended June 30, 2009, 2010 and 2011. We determined that the Office has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE



June 26, 2013

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

Dear Mr. Gilbert:

Thank you for sending the preliminary draft of the agreed-upon procedures report for the fiscal year ending June 30, 2012.

We concur with the findings, most attributable to the transition year we experienced in separating from the Department of Education midyear. We will implement the necessary changes to current practice and will work with the Department of Education on procedures that meet the statutory goals of both organizations.

First Steps is dedicated to ensuring the wise investment of taxpayer funds in services to help children succeed in school. Thank you for your service to the state of South Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan DeVenny", with a long, sweeping flourish extending to the right.

Susan DeVenny
Director

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