

**SOUTH CAROLINA GOVERNOR'S SCHOOL
FOR SCIENCE AND MATHEMATICS**

HARTSVILLE, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2003

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 16, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina Governor's School
for Science and Mathematics
Hartsville, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Governor's School for Science and Mathematics (the School), and by the management of the South Carolina State Department of Education (the Department), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2003, 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimates and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Classification of Revenue 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, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 all new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- 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 recorded payroll expenditures to those of the prior year; (and) 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen to include large and unusual transactions. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

The School 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

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

6. **Reconciliations**

The School'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, 2003, 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 they were accurate and complete. 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. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the School's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2003.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

The School's data is included in closing packages submitted by the State Department of Education.

- We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the Department 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; 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.

9. **Schedule of Federal Financial Assistance**

The School'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, 2003, 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.

10. **Status of Prior Finding**

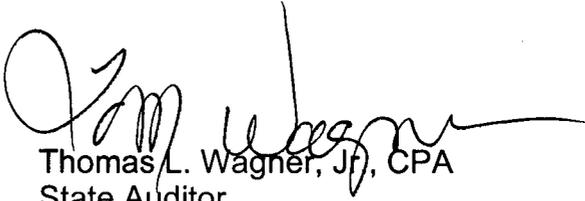
- We inquired about the status of the deficiency described in the finding reported in the Accountant's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken.

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

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina Governor's School
for Science and Mathematics
July 16, 2004

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 areas, 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 South Carolina Governor's School for Science and Mathematics and the South Carolina State Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section have been identified as a material weakness or violation of State Laws, Rules or Regulations.

CLASSIFICATION OF REVENUE

During our test of cash receipts and cut-off test of cash receipts, we note the following revenues were coded to an incorrect object code:

1. The School received \$20,069.75 from the South Carolina Commission on Higher Education for the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP). This amount was funded from non-federal funds. The non-federal revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants - restricted).
2. The School received \$106,632.87 from donations that were received through the Governor's School for Science and Math Foundation. The revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7605 (operating contributions and donations – restricted).
3. The School received \$18,600 from various students for payment of tuition and student fees. Of this amount \$11,150 was recorded in object code 7201 (miscellaneous revenue) instead of object code 5001 (tuition and student fees) and the remaining \$7,450 was recorded in object code 7605 (operating contributions and donations – restricted) instead of object code 5001 (tuition and student fees).
4. The School received \$31,466.46 from the Governor's School for Science and Math Foundation. This revenue was a grant from the Foundation. The revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants – restricted).

A similar comment was described in the State Auditor's Report on the School for the fiscal year ending June 30, 2002, dated April 29, 2003.

Because personnel did not adequately review supporting documentation and evaluate object code descriptions, revenue recorded in object code 7201 was overstated by \$169,319.08 and revenue recorded in object codes 5001 and 7506 was understated by \$18,600.00 and \$51,536.21, respectively. Revenue in object code 7605 was understated by \$99,182.87.

Section 2.1.6.10 of the Comptroller General's STARS Policies and Procedures manual defines revenue object codes. The revenue object codes discussed in paragraph one are defined as follows:

5001. TUITION & STUDENT FEE:

Fees charged for the cost of instruction and other service in schools, colleges, and universities.

7201. MISCELLANEOUS REVENUE:

Receipt of revenue that is not otherwise specifically classified under any other revenue object code.

7506. OTHER OPERATING GRANTS – RESTRICTED:

To designate operating grant funds received from an entity other than the Federal government that are restricted by the grantor for use in a particular function. . .

7605. OPERATING CONTRIBUTIONS AND DONATIONS – RESTRICTED:

To designate operating contributions and donations that are restricted by the contributor for use in a particular function. . .

We recommend the School design and implement appropriate and adequate procedures and practices to ensure that personnel responsible for assigning account numbers, revenue object codes, and other coding on accounting documents carefully review supporting documentation and obtain the knowledge necessary to make appropriate decisions regarding classifications before assigning the coding. The School should establish appropriate levels of supervisory and other reviews and management oversight regarding the document preparation, review, and processing; and authorization of transactions, which include independent reviews of documents and transactions by someone knowledgeable about accounting codes.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 2002, and dated April 29, 2003. We determined that the School has not taken adequate corrective action on the finding. We have repeated the Classification of Revenue finding.

MANAGEMENT'S RESPONSE



Management Response to State Auditor's Report
S.C. Governor's School for Science & Mathematics
FY Ended June 30, 2003

Summary:

Procedure Categories	Findings
1. Cash Receipts and Revenues	Material Weakness (see below)
2. Non-Payroll Disbursements & Expenditures	No Exceptions
3. Payroll Disbursements & Expenditures	No Exceptions
4. Journal Entries	No Exceptions
5. General Ledger & Subsidiary Ledgers	No Exceptions
6. Reconciliations	No Exceptions
7. Compliance	No Exceptions
8. Closing Packages	No Exceptions
9. Schedule of Federal Financial Assistance	No Exceptions
10. Status of Prior Finding	Material Weakness (see p. 3)

Auditor's Section A: Response to Review Category #1.

Issue: Classification of Revenue: Revenues coded to incorrect object code:

Personnel did not adequately review supporting documentation and evaluate object code descriptions.

There are four instances of the above incorrect coding cited in the report. The auditor's recommendation applies to all four citations, which are addressed below.

Auditor's Recommendation: "...the School design and implement appropriate and adequate procedures and practices to ensure that personnel responsible for assigning account numbers, revenue object codes and other coding...carefully review supporting documentation and obtain the knowledge necessary to make appropriate decision regarding classifications before assigning the coding. School should establish appropriate levels of supervisory and other reviews and management oversight regarding the document preparation, review and processing; and authorization of transactions, which include independent reviews of documents and transactions by someone knowledgeable about accounting codes.

Management Response: Category 1 - Classification of Revenues.

All errors in this category resulted from inconsistencies arising from assignment of codes at some time and in some cases by GSSM personnel and at other times and in other cases by State Department of Education (SDE) personnel. Historically, unlike revenue deposits, GSSM has always coded 100% of the object codes on expenditure requests, where there have been no exceptions. GSSM has worked diligently with SDE staff in learning and correcting expenditure object codes. Revenue coding mistakes have now come to the forefront thanks to the audit review and a similar effort will be made in proper placement of object codes on deposits.

Section 1 points out an error in coding GearUp grant revenue. GearUp fund receipts have been coded by State Department of Education personnel when funds are received directly from the Commission on Higher Education (CHE) using the interdepartmental transfer method. GSSM has not participated in assigning these codes but will in the future.

In sections 2 and 4, SDE and GSSM personnel occasionally used different interpretations and codes. Some of the object code definitions can be a bit confusing at first. A “grant” from GSSM’s Foundation may actually be a pass-through contribution. An assessment must be made as to which object code is appropriate. Training must take place and a clear template and process developed for ensuring the correct code is entered.

For example: Here are the definitions of object codes 7605 and 7506 per the STARS manual:

7605. OPERATING CONTRIBUTIONS AND DONATIONS - RESTRICTED:

To designate operating contributions and donations that are restricted by the contributor for use in a particular function (i.e., General Government, Education, Social Services, or Health and Environment). A contributions/donation is considered to be operating if the funds may be used for *either* operating expenses or capital expenses at the discretion of the recipient. If a contribution/donation provides funding for multiple functions, it should be reported as restricted only if the amounts restricted to each function are specifically identified by the contributor.

7506. OTHER OPERATING GRANTS - RESTRICTED:

To designate operating grant funds received from an entity other than the Federal government that are restricted by the grantor for use in a particular function (i.e., General Government, Education, Social Services, or Health and Environment). A grant is considered to be an operating grant if the funds may be used for *either* operating expenses or capital expenses at the discretion of the recipient. If a grant provides funding for multiple functions, it should be reported as restricted only if the amounts restricted to each function are specifically identified in the grant application or award.

With different persons placing object codes on receipts, and sometimes without clear information on donor intent, some deposits were placed incorrectly as “object code 7201 – Miscellaneous Revenue” as described in the audit report.

In section 3 under this category, the auditor’s comments cited an instance of incorrect assignment of revenue objects codes for tuition and fees (code 5001). In 2002-2003 and in the face of repeated budget cuts, GSSM was actively and directly seeking donations and underwriting of programs (such as athletic teams, exam breaks, SCJAS participation, Life in Residence Activities, etc.) large and small from parents and individuals. Many donations came in from parents restricted to a particular program such as an athletic team or for Junior Academy of Science conference participation for our students. More often than not, however, extra contributions were made in unrestricted areas.

For all areas listed, therefore, additional clarification and review for object code selection must be provided through a system of training, review and oversight.

Corrective Measures: For Category #1: Assignment of Correct Revenue codes

1. Clearly assign coding responsibilities and review process
 - a) GSSM staff will code 100% of all receipts and Vice President for Finance will review providing internal oversight.
 - b). SDE staff will be asked to review codes for accuracy – as a check on accuracy.
 - c) An “object code flow-chart” will be developed clarifying object code definitions.
 - d) Staff training will be conducted on the definitions and assignment of object codes – necessary to clarify and reduce ambiguity in assigning object codes. Training will encompass both GSSM and SDE personnel.
 - e) GSSM Staff will ID and review object code assignments for any funds accepted by Interdepartmental transfer directly from another State Agency.

2. Work Flow for Correct Coding of GSSM Receipts:
 - a) GSSM Staff to Code ALL Revenue Receipts (Staff member: Beth Byerly)
 - b) GSSM Vice President to Review Coding (Ernie Boyd) prior to submission
 - c) SDE Personnel to check GSSM submissions, providing check and balance (various).

Auditor’s Section B: Response to Category #10

Issue: Status of Prior Finding

Auditor’s Comment: during the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant’s comments section of the State auditor’s Report on the School for the fiscal year ended June 30, 2002, and dated April 29, 2003. We determined that the School has not taken adequate corrective action on the finding. We have repeated the Classification of Revenue finding.

Management Response: Auditor’s Comment is correct. Proper assignment of object codes was not adequately addressed in previous fiscal year.

Increased training and attention to object codes proved to be inadequate. Extraordinary events such as building, outfitting and moving into a new campus did detract from available staff time at GSSM. GSSM will adjust personnel time to systematically address and correct this audit priority internally, restricting external assessment of codes to a review function.

Corrective Measures:

- a. Re-assign staff time as priority necessary to address citation (see Section A above).
- b. Staff time for Training will be scheduled: to assist both GSSM and SDE Staff in correct coding – implement consistency, review, checks and balances. A coding “template” will be developed with object code definitions by October 29, 2004.
- c. Staff time adequate for proper coding and review will be scheduled as part of each regular workweek.
- d. Consider seeking additional resources or restructuring as necessary to address citation.

5 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$7.60. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.