

**SOUTH CAROLINA GOVERNOR'S SCHOOL
FOR THE ARTS AND HUMANITIES**

GREENVILLE, SOUTH CAROLINA

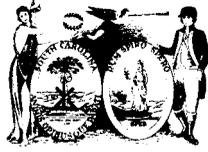
STATE AUDITOR'S REPORT

JUNE 30, 2000

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 13, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Directors
South Carolina Governor's School
for the Arts and Humanities
Greenville, 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 the Arts and Humanities (the School), and by the management of the South Carolina State Department of Education, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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2. We tested 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 related acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and selected ones 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Pay at Termination of Employment in the Accountant's Comments section of this report.
4. We tested 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. The individual transactions selected for testing were chosen judgmentally to include large, routine, and unusual transactions. We found no exceptions as a result of the procedures.

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5. We tested 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. The School is a separate program within the State Department of Education budgetary unit of the State of South Carolina. We obtained all monthly reconciliations prepared by the Department related to the School's balances for the year ended June 30, 2000, and tested selected reconciliations of balances in the Department's accounting records for the School 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 recalculated the amounts, agreed the applicable amounts to the School's accounts in 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 School's accounts in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested 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 2000. Our finding as a result of these procedures is presented in Pay at Termination of Employment in the Accountant's Comments section of this report.
8. 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, 2000, prepared by the Department and submitted to the State Comptroller General. We reviewed information included in the closing packages relating to the School to determine if the closing packages 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.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the School's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

The Honorable Jim Hodges, Governor
and
Members of the Board of Directors
South Carolina Governor's School
for the Arts and Humanities
July 13, 2001

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

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

The procedures agreed to by the agencies 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 has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

PAY AT TERMINATION OF EMPLOYMENT

The State Department of Education (the Department) is the fiscal agent for the South Carolina Governor's School for the Arts and Humanities (the School). The Department provides technical and administrative support for the School through its purchasing, personnel, payroll, data processing, and other operations. When one of the School's employees terminates his/her employment, the School prepares and submits a State Department of Education Human Resources Personnel Actions form to the Department to process final pay and to remove the employee from the payroll after this payment.

We tested all 13 of the School's termination transactions. The Department incorrectly calculated the pay at termination for one employee. The School submitted the required form for an employee who was terminating her employment effective September 17, 1999. As completed by the School, the form reflected an annual vacation leave balance of zero and a sick leave balance of 28.14 hours. The Department used the employee's sick leave balance instead of the annual vacation leave balance when calculating the amount of the individual's final pay. This error resulted in an overpayment of \$371.

Section 8-11-610 of the 1976 South Carolina Code of Laws, as amended, (the Code of Laws) provides that at termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but employees are not entitled to any payment for unused sick leave. Also, Section 8-11-30 of the Code of Laws states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment. Furthermore, good business practices require that entities establish adequate internal control procedures which should include a comprehensive

review of final employment transactions, including annual leave balances and payments, by a responsible employee other than the preparers of the applicable personnel and payroll forms; review of gross payroll amounts; and monitoring personal services budgets.

We recommend that the Department and the School implement procedures to ensure the School adheres to all State personnel and payroll laws and regulations including those covering employee pay at termination for hours worked in an employee's last payroll period and for unused annual leave. The Department should strengthen its review process to ensure that payroll calculations are independently verified with documentation, such as termination date, annual leave balances, rate of pay, etc. Before distributing payroll checks, the School should review the reasonableness of the gross payroll amount for each employee. We also recommend the School recover from the former employee the amount overpaid. [When collected, refunds of prior year budgetary general fund expenditures must be deposited to the State General Fund as required by Section 11-9-125 of the South Carolina Code of Laws.] Finally, we recommend that the School take appropriate action to help ensure that responsible employees monitor their budgets and expenditures, especially those for personnel costs.

MANAGEMENT'S RESPONSE

SCGSAH Response to Pay at Termination of Employment Accountant Comments

The South Carolina Governor's School for the Arts and Humanities must trust that the State Department of Education will process all financial transactions in accordance with state policies and procedures. The error in paying the employee's sick leave balance instead of the annual leave balance was processed by the SDE Human Resource Office, the Payroll Office, and the Finance Director.

The payroll for the State Department, which includes SCGSAH personnel, is completed in the SDE Finance Office. Personnel actions for the Governor's School are completed by SCGSAH staff and processed and approved by the State Department of Education, Office of Human Resources. The SDE Finance Director is responsible for checking the payroll voucher to the attached documentation that is to be sent to the State Comptroller General.

At present, the Governor's School has no way to verify payroll since the checks are sealed at the time of pick-up and no documentation is attached. The SCGSAH will coordinate with the fiscal agent to establish procedures to provide a method for the School to verify payroll prior to check writing.

SCGSAH has corresponded with the employee who was paid incorrectly to request return of the overpayment. This check, once received, will be remitted to the State General Fund.

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