

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

GREENVILLE, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 3, 1999

The Honorable James H. 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, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 1998, 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. 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 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 various STARS reports to determine if recorded expenditures were in agreement. 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 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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 Salary Payment 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 randomly. We found no exceptions as a result of the procedures.
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.

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6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 1998, and tested selected reconciliations of balances in the School'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 recalculated the amounts, agreed the applicable amounts to the School'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 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 1998. 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.

This report is intended solely for the information and use of the Governor and of the members of the Board of Directors and management of the South Carolina Governor's School for the Arts and Humanities 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 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 has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

SALARY PAYMENT

An employee terminated employment on July 10, 1997; however, the employee was paid for the entire month of July 1997.

This overpayment violated the South Carolina Code of Laws Section 8-11-30, which states the following:

It is unlawful for a person:

- (1) to receive a salary from the State or any of its departments which is not due; or
- (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We recommend that the School pay employees only for time worked and for unused accrued annual leave earned up to the maximum allowed by State law.

MANAGEMENT'S RESPONSE

July 29, 1999

Mr. Thomas L. Wagner, Jr., CPA
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

We are in receipt of the preliminary draft of the report resulting from your performance audit of agreed-upon procedures for the accounting records of the Governor's School for the fiscal year ended June 30, 1998. We have reviewed the draft and authorize the release of this report.

Regarding the item discussed in the Accountant's Comments, I wish to have the following comments included in the final report.

"The personnel action to terminate the employment of____was taken after lengthy discussion with both____and our Board of Directors and at the advice of the School's legal counsel. Negotiations between legal counsels were ongoing prior to the Governor's School becoming part of State Government. The South Carolina Governor's School for the Arts and Humanities has, since July 1, 1997, consulted (through the State Department of Education) with the Budget and Control Board on any human resource issues. The School, since formation, has looked to the Budget and Control Board for guidance and authoritative leadership for any unusual and potential legal situations."

We do not believe an exit conference will be necessary. Any questions or follow-up should be handled through my Special Assistant, JoAnne Payton. She can be reached in Columbia at (803)734-0803.

Sincerely,

Virginia Uldrick, President

PC: JoAnne Payton
David Glenn