

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

HARTSVILLE, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 29, 2003

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, 2002, 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. 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 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 various procedures to test the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing 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. 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 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 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 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. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all interagency appropriation transfers 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 journal entries selected for testing were chosen randomly and judgmentally to include large, routine, and unusual transactions. We found no exceptions as a result of the procedures.

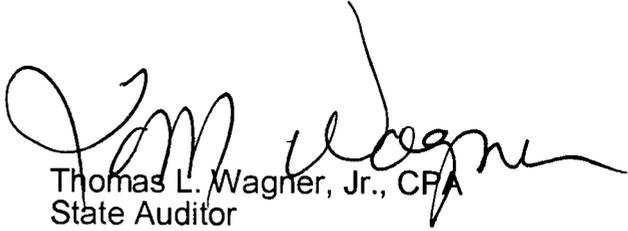
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5. The School is a separate program within the State Department of Education budgetary unit of the State of South Carolina. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically 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 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's accounts are reconciled by the Department. We obtained all monthly reconciliations prepared by the Department related to the School's balances for the year ended June 30, 2002, 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 determined if they were timely performed and properly documented in accordance with State regulations, 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 Department's accounting records and/or in STARS. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. 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 2002. Our finding as a result of these procedures is presented in Classification of Revenue 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, 2002, prepared by the Department and submitted to the State Comptroller General. We reviewed 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. 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, 2002, prepared by the Department and submitted to the State Auditor. We reviewed 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.

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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 School, and 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 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.

CLASSIFICATION OF REVENUE

During our analytical review of revenue and our test of cash receipts, we noted the following revenues were coded to an incorrect object code:

1. The School received \$72,650 from the South Carolina Commission on Higher Education under Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP). Of this amount, \$35,537 was funded by federal funds and the remaining \$37,113 was funded by nonfederal funds. The federal revenue was recorded in object code 2822 (federal operating grants - restricted) instead of object code 2805 (federal grant sub-contract state agencies) and the nonfederal revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants - restricted).
2. The School received a \$38,025 grant from the National Science Teachers Association. The revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants - restricted).
3. The School received a \$25,000 grant from the Byerly Foundation to use in contracting for the services of a lobbyist. The revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants - restricted).
4. The School received \$100,079 in grant funds from the Governor's School for Science and Mathematics Foundation to use by the School's Departments of Excellent, Outreach Support, and Institutional Advancement. The revenue was recorded in object code 7201 (miscellaneous revenue) instead of object code 7506 (other operating grants - restricted).

Because personnel did not adequately review supporting documentation and evaluate object code descriptions, revenue recorded in object codes 2822 and 7201 was overstated and revenue recorded in object codes 2805 and 7506 was understated.

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:

2822. FEDERAL OPERATING GRANTS - RESTRICTED:

To designate federal operating grant funds that are restricted by the grantor for use in a particular program. . .

2805. FEDERAL GRANT SUB-CONTRACT STATE AGENCIES:

To designate all federal funds received from other State agencies on a sub-grant or sub-contract basis.

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 program. . .

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 revenue classifications before assigning the coding. The School should establish the appropriate levels of supervisory and other reviews and management oversight regarding document preparation, review, and processing; and authorization of transactions which include independent reviews of documents and transactions by someone knowledgeable about accounting codes.

MANAGEMENT'S RESPONSE

The management of the South Carolina Governor's School for Science and Mathematics did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated August 7, 2003.

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