

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

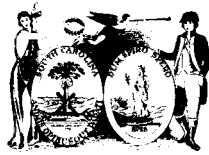
STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 2, 2003

The Honorable Mark Sanford, 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 (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 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 various 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.

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 individual journal entries selected for testing were chosen judgmentally to include large, routine, and unusual transactions. We found no exceptions as a result of the procedures.

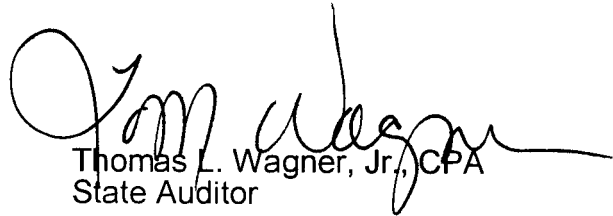
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5. The School is a separate program within the State Department of Education budgetary unit of the State of South Carolina. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically 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 School's accounts 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 Compensated Absences Closing Package in the Accountant's Comments section of this report.
8. We reviewed 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, 2001, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. 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. Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.

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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 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

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 has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

COMPENSATED ABSENCES CLOSING PACKAGE

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. The School provides information to the Department to use in processing information. Further, the School's data is included in closing packages submitted to the State Comptroller General by the State Department of Education.

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from the agency-prepared closing packages because the State's accounting system is on the budgetary basis. We determined that the School submitted incorrect information to the Department which was subsequently included in the compensated absences closing package the Department submitted.

The School reported \$189,718 for the accrued annual leave liability. However, the School calculated the annual leave liability for employees whose balances exceeded 337.5 hours based on a maximum annual leave balance of 337.5 hours or 45 days. Additionally, errors were made while manually calculating the liability for several employees. As a result, the annual leave liability at June 30, 2002 was understated by \$13,415.

To accurately report the School's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "Each agency's executive director and finance director are responsible for submitting . . . closing package forms . . . that are: •Accurate and submitted in accordance with instructions. •Complete. •Timely." Also, this section of the GAAP Manual requires an effective supervisory review of each completed closing package and lists the minimum review steps to be performed.

Section 3.17 of the GAAP Manual provides guidance for reporting compensated absences and for preparing and retaining supporting working papers. Section 3.17 states that the accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency's records for each employee.

We recommend that the School implement procedures to ensure that information submitted to the Department for inclusion in the Department's closing packages is accurate, complete and prepared in accordance with the GAAP Manual requirements and instructions.

SECTION B - STATUS OF PRIOR FINDINGS

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 South Carolina Governor's School for the Arts and Humanities for the fiscal year ended June 30, 2001, and dated June 18, 2002. We determined that the School has taken adequate corrective action on the finding regarding Classification of Revenue.

MANAGEMENT'S RESPONSE

SCGSAH Response to Accountant's Comments:

The South Carolina Governor's School must trust that the fiscal agent will furnish all relevant guidelines as applicable when requesting information from School staff. For future years, the State Department has assured us and the State Auditor that they will notify the SCGSAH of the criteria for reporting the data on the Compensated Absences Closing Package.

As the new President, I will assure you that School staff will continue to work closely with the State Department of Education in order to comply with all state policies and procedures.

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