

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

**GREENVILLE, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2007**

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# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 13, 2008

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, 2007, 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 in accordance with the agency's policies and procedures and State regulations.
- 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$9,000 – earmarked fund, \$9,700 – restricted fund, and \$600 – federal fund)  $\pm$  10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenue Object Codes and Recording Receipts in the Wrong Fiscal Year 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 in accordance with the agency's policies and procedures and State regulations, 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.
- 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$45,000 – general fund, \$11,400 – earmarked fund, \$10,700 – restricted fund, and \$2,200 – federal fund) and  $\pm$  10 percent.

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 processed in accordance with the agency's policies and procedures and State regulations.
- 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 selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$45,000 – general fund, \$11,400 – earmarked fund, \$10,700 – restricted fund, and \$2,200 – federal fund) and  $\pm 10$  percent.
- We 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. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Object Codes in the Accountant's Comments section of this report.

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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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, 2007, 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 accounts reconciled. 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. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the School's compliance with Appropriation Act general and agency specific provisos.

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, 2007, prepared by the State Department of Education 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 and if the amounts reported in the closing packages 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.

The Honorable Mark Sanford, Governor  
and  
Members of the Board of Directors  
South Carolina Governor's School  
for the Arts and Humanities  
May 13, 2008

9. **Status of Prior Findings**

- We inquired about the status of the findings 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, 2006, to determine if the Agency had taken corrective action.

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

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 elements, 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 and of the governing body and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**



## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

## **REVENUE OBJECT CODES**

One of the twenty-five receipt transactions tested and one of twenty-five journal entries tested were processed using the wrong revenue object code. The receipt transaction was recorded using object code 2822 (Federal Operating Grants - Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies) for federal funds passed through from another state agency. The journal entry was processed using object code 7404 (Royalties) instead of object code 7403 (Rent-State Owned Property) to record building space rental revenue.

Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines revenue object codes.

We recommend the School implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS revenue object codes.

## **RECORDING OF RECEIPTS IN WRONG FISCAL YEAR**

We tested twenty-five receipt transactions for proper cut off and noted one deposit was recorded in the wrong fiscal year. The School recorded receipts received in June 2007 as a fiscal month 01, fiscal year 2008 transaction. The deposit was for tuition/fees received in late June. Cash receipt documents demonstrated that the transactions were received in June but the receipts were mistakenly recorded as fiscal year 2008 transactions.

State Treasurer's year end close-out procedures require that revenue be recorded in the same fiscal year that the receipt occurs.

We recommend the School develop and implement procedures to ensure that receipts are recorded in proper fiscal year.

## **COMPENSATED ABSENCES CLOSING PACKAGE**

The School used an incorrect pay rate to calculate the leave liability for two of the five employees tested. The School used the Annual Leave Liability Report from the State Office of Human Resources to calculate its leave liability. However the School did not review the report to ensure that it was complete and accurate. As a result it did not detect errors in the report data which resulted in errors in amounts reported in the Compensated Absences Closing Package.

Section 3.17 of the Comptroller General's Office GAAP Closing Procedures Manual states, "the States policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30."

We recommend the School implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Governor's School for the Arts and Humanities for the fiscal year ended June 30, 2006, and dated May 9, 2007. We determined that the School has taken adequate corrective action on each of the findings, except we have repeated a finding entitled Revenue Object Code.

## **MANAGEMENT'S RESPONSE**

**South Carolina Governor's School for the Arts and Humanities**  
**State Auditor's Report**

June 30, 2007

**Management Comments**

REVENUE OBJECT CODES

**Finding:**

"One of the twenty-five receipt transactions tested and one of twenty-five journal entries tested were processed using the wrong revenue object code. The receipt transaction was recorded using object code 2822 (Federal Operating Grants - Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies) for federal funds passed through from another state agency. The journal entry was processed using object code 7404 (Royalties) instead of object code 7403 (Rent-State Owned Property) to record building space rental revenue. Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines revenue object codes.

We recommend the School implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS revenue object codes."

**Management Response:**

Finance staff has reviewed the code of accounts for revenues, and will make the coding corrections as noted. The VP Finance will assign all coding in the future. If we have questions, we will contact the appropriate employees at the State Department of Education and/or the Office of the State Auditor.

RECORDING OF RECEIPTS IN WRONG FISCAL YEAR

**Finding:**

"We tested twenty-five receipt transactions for proper cut off and noted one deposit was recorded in the wrong fiscal year. The School recorded receipts received in June 2007 as a fiscal month 01, fiscal year 2008 transaction. The deposit was for tuition/fees received in late June. Cash receipt documents demonstrated that the transactions were received in June but the receipts were mistakenly recorded as fiscal year 2008 transactions.

State Treasurer's year end close-out procedures require that revenue be recorded in the same fiscal year that the receipt occurs. We recommend the School develop and implement procedures to ensure that receipts are recorded in proper fiscal year."

**Management Response:**

For FY 2008, we have ensured that the School complied with all State Department of Education cut-offs. Deposits were made prior to June 30<sup>th</sup> at Wachovia Bank in Greenville, and paperwork was delivered to the Office of Finance prior to their FY 2008 cutoff. We will continue to follow those procedures and cut-off schedules.

COMPENSATED ABSENCES CLOSING PACKAGE

**Finding:**

"The School used an incorrect pay rate to calculate the leave liability for two of the five employees tested. The School used the Annual Leave Liability Report from the State Office of Human Resources to calculate its leave liability. However the School did not review the report to ensure that it was complete and accurate. As a result it did not detect errors in the report data which resulted in errors in amounts reported in the Compensated Absences Closing Package.

Section 3.17 of the Comptroller General's Office GAAP Closing Procedures Manual states, "the State's policy is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave and compensatory time. The amount of the liability is computed based on the employee's pay rate in effect at June 30."

We recommend the School implement procedures, including a review of the Annual Leave Liability Report, to ensure the accuracy of the Compensated Absences Closing Package."

**Management Response:**

The School was not aware that discrepancies existed between the records of the State Office of Human Resources and the records of the State Department of Education's Office of Payroll Services.

In subsequent years, we will certainly compare the records received from State OHR to confirm the accuracy of pay rates on the report.

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