

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

**GREENVILLE, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
REVENUE OBJECT CODES	7
UNTIMELY DEPOSITS	7
COMPENSATED ABSENCES CLOSING PACKAGE	8
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

# State of South Carolina



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

April 23, 2009

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, 2008, 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 (\$8,300 – earmarked fund, \$10,200 – restricted fund, and \$1,800 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenue Object Codes and Untimely Deposits 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 (\$47,500 – general fund, \$10,100 – earmarked fund, \$10,600 – restricted fund, and \$2,100 – 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 (\$47,500 – general fund, \$10,100 – earmarked fund, \$10,600 – restricted fund, and \$2,100 – 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. We found no exceptions as a result of the procedures.

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, 2008, 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 Agency'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, 2008, prepared by the Department 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  
April 23, 2009

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, 2008, to determine if Agency had taken corrective action.

Our findings as a result of these procedures are presented in Revenue Object Codes and Compensated Absences Closing Package 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.



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**

Two of the twenty-five receipt transactions tested were processed using the wrong revenue object code. For one transaction the School used object code 2822 (Federal Operating Grants – Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies) to record federal funds passed through from another state agency. We also noted that the school used revenue object code 5001 (Tuition and Student Fees) to record a reimbursement of an expenditure instead of the original expenditure code.

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.

## **UNTIMELY DEPOSITS**

Seven of the twenty-five receipt transactions tested were not deposited in a timely manner as defined by state law. In addition, the date of receipt was not documented for three of the twenty-five transactions. The seven receipt transactions were deposited from nine to sixty-eight days after the date of receipt.

Proviso 72.1 of the fiscal year 2008 Appropriation Act states, “For the current fiscal year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fees, the sale of commodities and services, and income tax derived from any other departmental or institutional source of activity, must be remitted to the State Treasurer at least once each week, when practical...”

We recommend the School develop and implement procedure to ensure timely deposits of cash receipts.

## **COMPENSATED ABSENCES CLOSING PACKAGE**

The School used the wrong leave balance for one of five individuals randomly selected for testing. The error occurred because the School had not posted all of the leave taken by the individual to the leave system when it calculated the year-end leave liability. As a result the compensated leave liability was overstated by \$189.

Section 3.17 of the Comptroller General's Office GAAP Closing Procedures Manual states, "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 the School implement procedures to ensure that all leave taken during the month of June is posted to the leave system before calculating the year-end compensated absences liability.

**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, 2007, and dated May 13, 2008. We determined that the School has taken adequate corrective action on each of the findings, except we have repeated findings entitled Revenue Object Codes and Compensated Absences Closing Package.

**MANAGEMENT'S RESPONSE**

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

June 30, 2008

**Management Comments**

REVENUE OBJECT CODES

**Finding:**

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 does review the code of accounts for revenues, and will always endeavor to use correct coding for deposits in the miscellaneous revenue fund. The VP Finance assigns and is responsible for all account coding. When we have questions, we will continue to solicit assistance from the appropriate employees at the State Department of Education and/or the Office of the State Auditor.

UNTIMELY DEPOSITS

**Finding:**

We recommend the School develop and implement procedures to ensure timely deposits of cash receipts.

**Management Response:**

Changes in staffing have taken place since the dates of these untimely deposits, and the VP-Finance held a staff meeting to restate procedures for timely processing. Receipts of all types are delivered to the Office of Finance within one day of receipt, and are recorded and deposited within a two-day period. With very limited staffing, we feel that this is a very reasonable time frame for processing. The change in staffing took place at the end of calendar 2008, and the School feels confident that previous issues have been solved.

COMPENSATED ABSENCES CLOSING PACKAGE

**Finding:**

We recommend the School implement procedures to ensure that all leave taken during the month of June is posted to the leave system before calculating the year-end compensated absences liability.

**Management Response:**

The School's Office of Human Resources completed the leave liability report using year-end leave balances from our year-end records, which tied to those of the state OHR reporting system. Leave was turned in and recorded after that date for the individual.

The VP-Finance and Director of Human Resources agreed that SCGSAH's HR Department will send out a notice requiring that all leave through 6/30 be recorded by the end of the next business day.

4 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$5.60. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.