

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

GREENVILLE, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2001

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 18, 2002

The Honorable Jim 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 (the School), and by the management of the South Carolina State Department of Education, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2001, 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. 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. 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 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 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 judgmentally to include large, routine, and unusual transactions. 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. The School is a separate program within the State Department of Education budgetary unit of the State of South Carolina. We obtained all monthly reconciliations prepared by the Department related to the School's balances for the year ended June 30, 2001, 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 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. 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 2001. We found no exceptions as a result of the procedures.
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, 2000, 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, 2001, 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 relating to the School 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, 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.

CLASSIFICATION OF REVENUE

During our analytical review of revenue for reasonableness by revenue account and test of cash receipts, we noted that certain funds were coded to an incorrect object code. The Governor's School for the Arts and Humanities Foundation, Inc. (the Foundation), a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code, is a component unit of the South Carolina Governor's School for the Arts and Humanities (the School). The Foundation was established to collect and disburse funds for the support of programs, services, scholarships, operations, and capital needs of the School. The School received \$580,000 from the Foundation during fiscal year 2001 to support its operations. Of that amount, \$280,000 was coded properly to object code 7201 – miscellaneous revenue. However, the remaining \$300,000 was coded to object code 5001 – tuition and student fee. These funds were not fees charged for the cost of instruction and other services in schools, colleges, and universities. According to School personnel, this deficiency was a result of human error.

We also noted that the School did not properly record \$35,000 in federal funds received from another State agency. According to our discussions with personnel employed by the other State agency, these funds were received from the National Foundation of Arts and the Humanities and were passed through to the School, one of the State agency's subrecipients. The School however, recorded the revenues in an earmarked subfund instead of a federal subfund. Additionally, the School did not use the correct object code to record the federal revenue. School personnel coded the \$35,000 sub-grant award to object code 5001 instead of object code 2805 – federal grant sub-contract state agencies. The State established revenue object code 2805 to distinguish these revenues from revenues received directly from the federal government. School personnel indicated that they did not realize these were federal

funds because the State agency which passed the federal funds to the School did not identify the source of the funds on the grant award document.

Section 2.1.6.10 of the Comptroller General's STARS Policies and Procedures manual describes revenue object codes. Object code 7201 should be used to record miscellaneous revenue "that is not otherwise specifically classified under any other revenue object code". Object code 2805 should be used to "designate all federal funds received from other State agencies on a sub-grant or sub-contract basis".

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 funding 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 subfunds and object codes.

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 South Carolina Governor's School for the Arts and Humanities for the fiscal year ended June 30, 2000, and dated July 13, 2001. We determined that the School has taken adequate corrective action on the finding involving payment at termination of employment.

MANAGEMENT'S RESPONSE

SCGSAH Audit Response:

The SCGSAH processes all financial transactions, including deposits of revenue, under the guidance and review of the Office of Finance, State Department of Education. The Governor's School must trust that the SDE, serving as the fiscal agent, will process all financial transactions in accordance with state government policies and procedures. The School's staff will communicate closer with the Finance Office and the State Comptroller General to insure accurate object codes are used for depositing revenue.

The School will also request with the grant payment from the Arts Commission, a copy of the voucher indicating the source of funding for this payment. If any discrepancy is noted from the authorized budget of this money, the proper budget authorization will be requested through the State Budget Office.

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