

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

GREENVILLE, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 9, 2007

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, 2006, 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 and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$13,200 – earmarked fund, \$7,800 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenue Object Code and Deposit Procedures 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 (\$45,600 – general fund, \$9,400 – earmarked fund, \$9,800 – restricted fund, and \$1,800 – federal fund) and ± 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 (\$45,600 – general fund, \$9,400 – earmarked fund, \$9,800 – restricted fund, and \$1,800 – federal fund) and ± 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 ± 2 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, 2006, 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, 2006, 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.

We found no exceptions as a result of the procedures.

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.

The Honorable Mark Sanford, Governor
and
Members of the Board of Directors
South Carolina Governor's School
for the Arts and Humanities
May 9, 2007

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.", written in a cursive style.

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

ACCOUNTANT'S COMMENTS

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 CODE

The School miscoded the object code on one of twenty-five receipt transactions tested. The School received a grant award from the South Carolina Arts Commission and recorded the receipt using object code 7201 – Miscellaneous Revenue. The transaction should have been recorded using object code 7506 – Other Operating Grants – Restricted.

Object code 7506 – Other Operating Grants – Restricted is defined by the STARS manual as follows, “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 function (i.e., General Government, Education, Social Services, or Health and Environment).” A grant is considered to be an operating grant if the funds may be used for either operating expenditures or capital expenditures at the discretion of the recipient.

We recommend that the School carefully review object code definitions to ensure the proper coding of all receipt transactions. Operating grants received from non-federal sources should be coded to object code 7506 – Other Operating Grants – Restricted.

DEPOSIT PROCEDURES

While performing the test of receipts we were unable to determine the receipt date for tuition fees for two of twenty-five receipt vouchers tested. Compliance with State law requiring timely deposits cannot be determined if the date of receipt is not documented. The School receives payments for application and tuition fees. The School prepares receipts for all payments and forwards the checks and supporting documentation to the Department of Education, finance office, for deposit. The supporting documentation for the two receipts in question documented that payments had been received prior to the date documented on the receipt document. The exact date of receipt could not be determined; however, we were able to determine that the payments had been received at least four days prior to the receipt date.

Proviso 72.1 of the fiscal year 2006 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 that the School implement procedures to ensure timely deposits of receipts.

MANAGEMENT'S RESPONSE

Revenue Object Code

Finding:

"The School miscoded the object code on one of twenty-five receipt transactions tested. The School received a grant award from the South Carolina Arts Commission and recorded the receipt using object code 7201 - Miscellaneous Revenue. The transaction should have been recorded using object code 7506 - Other Operating Grants - Restricted."

Management Comments:

The finance staff has reviewed the code of accounts for revenues, and will make the necessary corrections to coding in the future. If there are any questions, we will contact the appropriate representatives at the State Department of Education and/or the Office of State Auditor for clarification.

Deposit Procedures

Finding:

"While performing the test of receipts we were unable to determine the receipt date for tuition fees for two of twenty-five receipt vouchers tested. Compliance with State laws requiring timely deposits cannot be determined if date of receipt is not documented.

The School receives payments for application and tuition fees. The School prepares receipts for all payments and forwards the checks and supporting documentation to the Department of Education's finance office for deposit. The supporting documentation for the two receipts in question documented that payments had been received prior to the date documented on the receipt document. The exact date of the receipt could not be determined; however, we were able to determine that the payment had been received at least four days prior to the receipt date.

Proviso 72.1 of the Fiscal year 2006 Appropriations 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 that the School implement procedures to ensure timely deposits of receipts."

Management Comments:

School officials are in the process of revising deposit procedures so that receipts are initially received in the office of finance rather than the Registrar's office. We are also working with the SDE office of Finance to arrange for deposit through the State's depository account in Greenville, rather than forwarding the paperwork to Columbia for deposit by SDE. These two steps should improve cash flow on deposits by several days.

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