

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

GREENVILLE, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2011

State of South Carolina



Office of the State Auditor

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June 6, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Directors
South Carolina Governor's School
for the Arts and Humanities
Greenville, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Governor's School for the Arts and Humanities for the year ended June 30, 2011, was issued by Greene, Finney & Horton, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/cwc

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, 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"), by the management of the South Carolina State Department of Education (the "Department"), and by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2011, 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 School'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 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the School's accounting records. The scope was based on agreed upon materiality levels (\$45 – general fund, \$7,500 – earmarked fund, \$0 – restricted fund, and \$1,300 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in "Income Statement Coding" in the Accountants' 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 School'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 current year expenditures at the subfund and account 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 School's accounting records. The scope was based on agreed upon materiality levels (\$41,000 – general fund, \$16,000 – earmarked fund, \$10,000 – restricted fund, and \$3,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in "Individuals with Disabilities Education Act ("IDEA") Expenditure" and "Income Statement Coding" in the Accountants' Comments section of this report.

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 School's policies and procedures and State regulations.
- 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 School'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 current year payroll expenditures at the subfund and account 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 School's accounting records. The scope was based on agreed upon materiality levels (\$41,000 – general fund, \$16,000 – earmarked fund, \$10,000 – restricted fund, and \$3,000 – 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 +/- 5 percent to ensure that payroll expenditures were classified properly in the School's accounting records.

3. **Payroll Disbursements and Expenditures (Continued)**

The individual transactions selected for the new hire and terminated employee testing were chosen randomly. The employees selected for the payroll disbursement testing were chosen randomly and the pay dates tested for those employees were chosen systematically. Our findings as a result of these procedures are presented in “Personnel Files”, “Temporary Employees”, and “Fringe Benefits” in the Accountants’ Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers 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 School’s policies and procedures and State regulations.

The individual transactions selected for the journal entry and appropriation transfer testing were chosen randomly. We selected and tested all operating transfers during the fiscal year. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

6. **Closing Packages**

The School’s data is included in closing packages submitted by the Department.

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, 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

We found no exceptions as a result of the procedures.

7. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountants’ Comments section of the State Auditor’s Report on the School resulting from the Office of the State Auditor’s engagement for the fiscal year ended June 30, 2008, to determine if School had taken corrective action. We applied no procedures to the School’s accounting records and internal controls for the years ended June 30, 2009 and 2010.

7. **Status of Prior Findings (Continued)**

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 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, the State Auditor, and 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.



Greene, Finney & Horton, LLP

Mauldin, South Carolina

June 6, 2012

ACCOUNTANTS' 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 School require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

Individuals with Disabilities Education Act (“IDEA”) Expenditure

- Condition:** The comparison of current year to prior year non-payroll expenditures at the subfund level revealed that the School charged \$29,065 in electricity expenditures to the IDEA subfund in fiscal year 2011. Electricity expenditures for the School did not appear to be directly attributable to children with disabilities and are not considered to be an excess cost.
- Cause:** It appears that the School charged the electricity cost to the IDEA subfund to avoid losing IDEA funding.
- Effect:** It appears that the School over-claimed federal funding for the \$29,065 in electricity expenditures charged to the IDEA subfund in fiscal year 2011.
- Criteria:** South Carolina Regulation 43-243.1 requires that the IDEA funds only be used to pay excess costs of providing special education and related services to children with disabilities.
- Recommendation:** We recommend that the School establish procedures to ensure that only allowable costs are charged to federal grants in order to ensure compliance with the Office of Management and Budget’s Circular A-133, Circular A-87, and the State of South Carolina’s Code of Regulations. We also recommend that the School reimburse the federal grantor the amount charged to the IDEA subfund related to the electricity expenditure if it is determined that the cost was unallowable under Federal and State regulations.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

Income Statement Coding

- Criteria: It was noted during our non-payroll expenditure and revenue analytical procedures that numerous changes from the current year to the prior year were a result of coding errors in the prior year (as prior year receipts or disbursements had been recorded to an inaccurate account).
- Cause: Policies and procedures relating to the accurate recording of receipts and transfers were not followed in the prior year.
- Effect: Prior year receipts and disbursements were coded incorrectly in the prior year.
- Criteria: Transactions should be recorded to the correct accounts when being processed in order to provide for accurate oversight and meaningful comparative information.
- Recommendation: We recommend that the School follow policies and procedures in place to ensure accurate coding of receipts and disbursements. In addition, we recommend that current year to prior year analysis be performed periodically during the year and after the fiscal year is closed to ensure that items have been coded to the appropriate accounts.

Personnel Files

- Condition: It was noted during our payroll disbursement, new hire, and terminated employee testing that current personnel documentation was not always being maintained in the personnel files. Ultimately, the documentation was provided by the personnel department.
- Cause: Current employee documentation was not being maintained in the personnel files.
- Effect: As noted above, the documentation was ultimately provided by the personnel department.
- Criteria: Current employee documentation should be maintained in the personnel files.
- Recommendation: We recommend that personnel files be kept up to date with the latest salary, deduction, and other necessary information.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Temporary Employees

- Condition: It was noted during our payroll disbursement testing that two of 25 employees selected for testing were temporary employees who were not paid in fiscal year 2011, but were shown as active employees in the payroll system.
- Cause: Paperwork regarding termination or inactivation of the temporary employee had not been processed.
- Effect: We noted no payments to these terminated/inactive employees; however, the risk of potential error and/or fraud is greater by keeping these employees active in the system.
- Criteria: Information in the SCEIS system should be kept as current as possible.
- Recommendation: We recommend that whenever possible, the School inactivate employees who are not being paid to reduce the risk of potential error and/or fraud.

Fringe Benefits

- Condition: It was noted during our payroll and benefit expenditure analytical procedures that the School had a credit balance of approximately \$9,000 related to workers' compensation expenditures in the General Fund for fiscal year 2011 compared to approximately \$200,000 in workers' compensation expenditures in the General Fund during fiscal year 2010. The Earmarked Fund had workers' compensation expenditures of approximately \$53,000 in fiscal year 2011 compared to approximately \$1,000 in workers' compensation expenditures during fiscal year 2010. In addition, the Restricted and Federal Funds both had very little to no health insurance charged although they had salaries charged in fiscal year 2011. Based on these comparisons, it appears that the distribution of fringe for these subfunds was not comparable to the salaries charged to those subfunds.
- Cause: Fringe expenditures were allocated in previous fiscal years and the implementation of SCEIS allowed for much better tracking of fringe expenditures in relation to salaries; thus, the inconsistencies from year to year.
- Effect: As noted in the Condition above, it appears that the distribution of fringe for these subfunds was not comparable to the salaries charged to those subfunds.
- Criteria: Fringe expenditures should be charged to the same subfund as salaries when possible.
- Recommendation: We recommend that the School charge salaries and related fringe expenditures to the same subfund when possible to ensure consistency from year to year and accurate data in the subfunds to allow for more efficient and effective monitoring of expenditures by subfund.

SECTION C – STATUS OF PRIOR AUDIT 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 Office of the State Auditor’s Report on the Governor’s School for the Arts and Humanities for the fiscal year ended June 30, 2008, dated April 23, 2009. We applied no procedures to the School’s accounting records and internal controls for the years ended June 30, 2009 and 2010. We determined that the School has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Mr. Richard H. Gilbert, Jr.
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia

Dear Mr. Gilbert:

The following is Management's Response to the Draft SC Governor's School for the Arts and Humanities (SCGSAH) Independent Accountant's Report on Applying Agreed Upon Procedures for the Year Ended June 30, 2011.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS
Individuals with Disabilities Education Act (“IDEA”) Expenditure

Audit Recommendation: We recommend that the School establish procedures to ensure that only allowable costs are charged to federal grants in order to ensure compliance with the Office of Management and Budget's Circular A-133, Circular A-87, and the State of South Carolina's Code of Regulations. We also recommend that the School reimburse the federal grantor the amount charged to the IDEA subfund related to the electricity expenditure if it is determined that the cost was unallowable under Federal and State regulations.

Management Response: SCGSAH agrees that only allowable costs should be charged to federal grants and will comply. The School disagrees with the recommendation to reimburse the federal grantor. The federal FY 2010 grant was granted to offset some of the salary and fringe benefits of the School's special education faculty. The funds from the grant were available through the end of the federal fiscal year, September 30, 2010. The finance office at SCGSAH was made aware of these funds availability after incoming financial officer was installed on July 2, 2010, which was after the close of the State's fiscal year. During the State FY 2010, the School paid the special education faculty salary and fringe benefits, and the amount of such expenses exceeded the grant amount. Therefore, funds were spent by the school as prescribed by the grant.

When the School became aware that the federal unused funds remained available through the end of the federal fiscal year, the decision was made to use the funds in a manner such that the net effect on the funds available to the School would be the same as if the

funds were used during the State FY 2010. If the funds had been used in FY 2010, the SCGSAH "carryover" to FY 2011 allowed by Proviso would have been \$29,065 greater than the actual FY 2010-2011 carryover, increasing the School's FY 2011 available operating funds by \$29,065. We decided to offset \$29,065 of FY 2011 operating costs, therefore making the net effect of the use of these funds the same as if these funds had been expended in the State FY 2010.

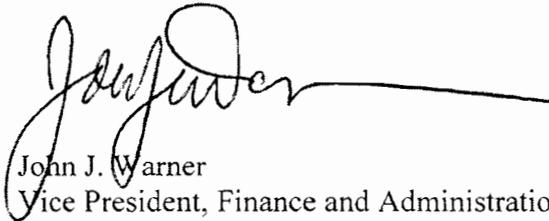
SECTION B – OTHER WEAKNESSES

The School agrees with the recommendations of Section B. Since SCGSAH relies on the State Department of Education for many of the personnel and financial transactions cited in Section B, the School agrees to cooperate with the State Department of Education to implement the recommendations.

End of Management's Response.

Please let me know if you need further information.

Sincerely

A handwritten signature in black ink, appearing to read "John J. Warner", with a long horizontal flourish extending to the right.

John J. Warner
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