

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

GREENVILLE, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2013

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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April 25, 2014

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, 2013, 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

TABLE OF CONTENTS

	<u>Page</u>
Independent Accountant's Report on Applying Agreed-Upon Procedures	1
Accountant's Comments	
Section A – Other Weaknesses	6
Section B – Status of Prior Findings	7
Management's Response	9



**INDEPENDENT ACCOUNTANT'S 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, 2013, 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 (\$17 – general fund, \$18,000 – earmarked fund, \$0 – restricted fund, and \$0 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in "Indirect Costs Recording" 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 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 (\$63,000 – general fund, \$14,000 – earmarked fund, \$12,000 – restricted fund, and \$820 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in "Expenditure Account Balance" in the Accountant's 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 (\$63,000 – general fund, \$14,000 – earmarked fund, \$12,000 – restricted fund, and \$820 – 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 +/- 10 percent to ensure that payroll expenditures were classified properly in the School's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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 reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting 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 Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the School for the fiscal year ended June 30, 2012, to determine if School had taken corrective action.

Our finding as a result of these procedures is presented in "Indirect Costs Recording" 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 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 South Carolina Office of the State Auditor, management of the South Carolina State Department of Education, and the governing body and management of the South Carolina Governor's School for Arts and Humanities and is not intended to be and should not be used by anyone other than these specified parties.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
April 25, 2014

ACCOUNTANT'S COMMENTS

SECTION A – 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.

Indirect Costs Recording

- Condition:** During our revenues analytics, it was noted that indirect costs revenues were approximately \$165 in fiscal year 2013 (“FY 2013”) although there were no federal revenues. Based on inquiries, it was determined that indirect costs were not fully charged in the fiscal year 2012 (“FY 2012”) for one of the School’s grants; thus, the indirect costs charged in FY 2013 included the unclaimed indirect costs from FY 2012.
- Cause:** There was turnover in personnel responsible for indirect cost accounting transactions, which ultimately led to the indirect costs not being fully charged in FY 2012.
- Effect:** Indirect costs were understated in FY 2012 and overstated in FY 2013; however, it appears that indirect costs were ultimately fully claimed.
- Criteria:** Indirect costs should be recognized and recorded in the year earned.
- Recommendation:** We recommend that indirect costs be charged and posted in full each fiscal year to allow for proper matching and for ease of tracking and re-calculation of indirect costs.

Expenditure Account Balance

- Condition:** During our non-payroll expenditure testing, it was noted that one account had an inappropriate credit balance.
- Cause:** A journal entry reclassified more expenditures to the EIA restricted fund than were originally recorded in the general fund due to an error in journal entry preparation.
- Effect:** There was an inappropriate balance in the expenditure account, general fund expenditures were understated and EIA restricted fund expenditures were overstated.
- Criteria:** Journal entries should only reclassify expenditures that are available.
- Recommendation:** We recommend that a thorough review of journal entries and the trial balance be performed to ensure that correct amounts are being reclassified and that ending balances are appropriate.

SECTION B – 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 Independent Accountant’s Report on the Governor’s School for the Arts and Humanities for the fiscal year ended June 30, 2012, dated June 24, 2013. We determined that the School has taken adequate corrective action on each of the prior year audit findings with the exception of the finding entitled “Indirect Costs Recording”, which is presented in the Accountant’s Comments section of this report.

MANAGEMENT'S RESPONSE

April 25, 2014

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

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, 2013. The responses are in the order and numbered according to the Draft Summary Comments/Findings

1. Indirect Cost Posting: Indirect costs were not posted before the close out of a grant in FY 2012, which resulted in indirect cost revenues being posted in FY 2013 though there were no federal revenues in FY 2013. SC Code of Laws Section 2-65-70 requires that all agencies receiving federal grants or contracts shall recover the maximum allowable indirect costs on those projects, subject to applicable federal laws and regulations. It appears that the maximum indirect costs allowable were eventually charged; however, we recommend that indirect costs be charged and posted each fiscal year in full to allow for ease of tracking and calculating of the indirect costs.

Response: Costs for abovementioned federal grant are posted by the Department of Education, and therefore SCGSAH has no comment on the posting timing. SCGSAH will work with the State Department of Education as requested to post indirect costs in the fiscal year in which they occur.

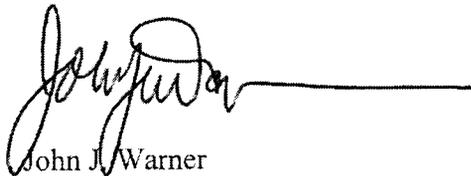
2. Incorrect Balance in Expenditure Account: During our non-payroll analytic testing, it was noted that account "10010000-5024990000 Other Contract Services" had a credit balance of \$3,313.74. Through inquiry it was determined that the credit balance was due to an error made when performing a journal entry transferring funds from the General Fund to the EIA fund in order to fully expend EIA funds. We recommend that thorough reviews be performed of journal entries and the trial balance to ensure that all balances are appropriate.

Response: SCGSAH will work with the Department of Education to assist in the fiscal year end journal entries and balances.

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", followed by a long horizontal line extending to the right.

John J. Warner
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