

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*WIL LOU GRAY OPPORTUNITY SCHOOL
WEST COLUMBIA, SOUTH CAROLINA*

For The Year Ended June 30, 2011

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

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

(803) 253-4160
FAX (803) 343-0723

June 5, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the Wil Lou Gray Opportunity School for the fiscal year ended June 30, 2011, was issued by The Hobbs Group, P.A., 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/trb

TABLE OF CONTENTS
WIL LOU GRAY OPPORTUNITY SCHOOL
WEST COLUMBIA, SOUTH CAROLINA
For the Year Ended June 30, 2011

I. Independent Accountants' Report on Applying Agreed-Upon Procedures.....	1
II. Accountants' Comments	
Section A – Violations of State Laws, Rules or Regulations	6
Comments.....	7
Section B – Other Weakness.....	9
Comments.....	10
Section C – Status of Prior Findings	11
Management's Response	12

1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202



Phone (803) 799-0555

Fax (803) 799-4212

www.hobbscpa.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 15, 2012

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and the governing body and management of the Wil Lou Gray Opportunity School ("*the School*"), 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 fund 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

- (\$16,500 – earmarked fund, \$13,500 – restricted fund, and \$2,250 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Timely Deposits of Receipts 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 agency's policies and procedures and State regulations, were bona fide disbursements of the Wil Lou Gray Opportunity 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 fund level to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels for the operating fund (\$55,000 – general fund, \$9,000 – earmarked fund, \$2,600 – restricted fund, and \$6,700 – 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 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 employee's first and/or last paycheck 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 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 (\$55,000 – general fund, \$9,000 – earmarked fund, \$2,600 – restricted fund, and \$6,700 – 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 agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Payroll Calculation and Final Pay Calculation 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 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. Composite Reservoir Account

Reconciliations

- We obtained all monthly reconciliations prepared by the Wil Lou Gray Opportunity School for the year ended June 30, 2011 and inspected selected reconciliations of balances in the School's accounting records to those reflected on the State Treasurer's Office monthly 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 School's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the School's accounting records.

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 made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We obtained all monthly reconciliations prepared by the Fiscal Technician II.

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 Wil Lou Gray Opportunity 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.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Timely Reconciliation of Composite Reservoir Account in the Accountants' Comments section of this report.

6. Appropriation Act

- We inspected School documents, observed processes, and/or made inquiries of School 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.

7. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, prepared by the Wil Lou Gray Opportunity School 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 Closing Packages in the Accountants' Comments section of this report.

8. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2011, prepared by the School and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

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 Wil Lou Gray Opportunity School resulting from the engagement for the fiscal year ended June 30, 2009, to determine if the School had taken corrective action. We applied no procedures to Wil Lou Gray Opportunity School's accounting records and internal controls for the year ended June 30, 2010.

Our finding as a result of these procedures is presented in Final Pay Calculation in the Accountant's Comments section of this report.

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
May 15, 2012

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, the South Carolina Office of the State Auditor and the governing body and management of the Wil Lou Gray Opportunity School and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

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 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.

TIMELY DEPOSITS OF RECEIPTS

We inspected 25 receipt transactions to determine if receipts were deposited within 7 days of receipt. We noted five instances in which the School failed make the deposits in a timely manner. The School's policy is to make deposits every Friday; however the policy was not consistently applied to all receipts.

Section 89.1 of the Appropriations Act requires that "state revenues...must be remitted to the State Treasurer at least once each week."

The above practice opens the School to the threat of a loss or theft of cash while it is on the premises and does not allow for proper reporting of receipts for decision making process. We recommend the School follow their existing policy to ensure funds are deposited in the bank in a timely manner.

CLOSING PACKAGES

Our review of the agency prepared closing packages revealed the School's capital asset closing package did not agree to the general ledger. The amount reported for machinery and equipment retirements differed from the supporting documentation by \$11,646. We determined the difference occurred because the School reported a retirement in the prior year; however, the asset was disposed of in the current year.

The requirements and instructions for completing the closing packages are included in the GAAP Closing Procedures Manual (GAAP Manual). Sections 3.1 through 3.8 of the GAAP manual provide guidance for agencies reporting capital assets transactions and balances in closing packages.

We recommend the School develop and implement procedures to ensure the closing packages are accurately stated.

PAYROLL CALCULATION

We tested employees who were hired during the fiscal year to ensure that the employees' pay was properly calculated. We determined an employee's mandatory five day furlough deduction was not calculated correctly. The employee was an eleven month employee however; the calculation was calculated based on a twelve month employee. The error resulted in an overpayment of \$30.20.

Section 8-11-30 of the 1976 Code of Laws states that, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone

in the employment of the State to issue vouchers, checks, or otherwise pay salaries or moneys that are not due to state employees of any department of the State...”

We recommend the School implement procedures to ensure proper payment to newly hired employees. We also recommend that the procedure include independent reviews of payroll calculations.

FINAL PAY CALCULATION

We tested employees who terminated employment during the fiscal year to ensure that the employees’ final pay was properly calculated. We noted one instance in which an employee’s final pay was incorrectly calculated. The employees’ pay is based upon a school calendar year in which a portion of their salary is deferred so that the employees can be paid year round. Therefore, any employee with deferred salary who terminates prior to the end of the school year is owed the amount of salary deferred. We noted one employee whose deferred salary amount was incorrectly calculated by the HR module. In addition, the hourly rate was incorrectly calculated by the HR module. The amount calculated by the HR module resulted in a payout of \$3,132; however, the payout should have been \$4,330 which results in a difference of \$1,198.

We recommend the School implement procedure to ensure proper payment to terminated employees. We also recommend that the procedures include independent reviews of payroll calculations. Finally, we recommend the School make proper payment to the terminated employee for underpayment.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

TIMELY RECONCILIATION OF COMPOSITE RESERVOIR ACCOUNT

A monthly reconciliation should be prepared for the composite reservoir account with the preparer and reviewer both signing and dating the reconciliation. We reviewed the reconciliations of the School's student activity account. During our review of the reconciliations, we noted the reconciliations did not include a date to determine if the reconciliation was prepared and reviewed in a timely manner. Staff was not aware of the need to date the reconciliations. In order to determine if reconciliations were prepared and reviewed in a timely manner the reconciliation should be signed and dated by the preparer and the reviewer.

We recommend the School implement procedures to require both the preparer and the reviewer to sign and date the reconciliations.

SECTION C – 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 School for the fiscal year ended June 30, 2009, and dated August 12, 2010. We applied no procedures to the School’s accounting records and internal controls for the year ended June 30, 2010. We determined that the School has taken adequate corrective action on each of the prior year findings except for the prior year comment titled Final Pay Calculation. The finding is repeated in the current year finding titled Final Payroll Calculation.

MANAGEMENT'S RESPONSE

Wil Lou Gray Opportunity School

WEST CAMPUS ROAD • WEST COLUMBIA, SOUTH CAROLINA 29170 • (803) 896-6480 FAX (803) 896-6490

May 22, 2012

Mr. Richard H. Gilbert, Jr.,
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, SC

Mr. Gilbert:

We recently received the outlined findings of the examination of our financial records for FY11. Please find attached our response to the identified findings that we concur with and the corrections to those findings. We have implemented the corrections and will make a every effort to ensure that progress to those changes will be continuous.

Sincerely,



Pat G. Smith

Cc: Laura M. Spells, CPA
The Hobbs Group, PA



1. First School Of Its Kind
2. Classes That Fit Every Pupil
3. Serving "At Risk" Youth 16 to 18 Years of Age

4. Fully Accredited
5. Individual Development
6. A State Agency

Timely Deposits of Receipts

We concur that it is important to protect the assets of the State. The only time deposits were not made timely were times when the cost of making the deposit exceeded the amount of the deposit. However, we will make a greater effort to ensure that deposits are made weekly.

Closing Packages

During the inventory of assets, we noted that a vehicle which was still being carried on the General Ledger had been sent to Surplus Property prior to June 30. We made the adjustment to the General Ledger once the difference was discovered. Unfortunately, the adjustments were after the books were closed for the year but before the closing package was prepared. The closing package was correct. We have requested that all Turn In Documents be submitted to Finance once Surplus Property takes possession of any asset to avoid this situation in the future.

Payroll Calculation

We concur with the recommendation and will send a letter requesting a refund of the overpayment. We appreciate the audit staff discovering this error. Due to the complex nature of payroll at the School, the Finance staff endeavors to make sure every paycheck is correct. It is a testament to their dedications that only one error was discovered.

Final Pay Calculation

In December 2009, we were converted to the automated payroll system. The system has proven to be unreliable when it comes to determining final pay for employees in deferred pay positions. We have started manually calculating the final pay and adjusting the system to match. We will research the underpayment and process it appropriately.