

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

STATE AUDITOR'S REPORT

JUNE 30, 1998

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS	5
PAYROLL CALCULATIONS AND PAYMENTS	6
SECTION B - STATUS OF PRIOR FINDING	9
MANAGEMENT'S RESPONSE	10

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 10, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the Wil Lou Gray Opportunity School, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 1998, 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina
June 10, 1999

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 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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. Our finding as a result of these procedures is presented in Payroll Calculations and Payments in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and appropriation transfers 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 randomly. We found no exceptions as a result of the procedures.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina
June 10, 1999

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.
6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 1998, and tested selected reconciliations of balances in the School's accounting records 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 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 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 1998. We found no exceptions as a result of these procedures.
8. We reviewed the status of the deficiency described in the finding reported in the Auditor's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 1996, to determine if adequate corrective action has been taken. (We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1997.) Our finding as a result of these procedures is presented in Payroll Calculations and Payments in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the School 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 as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, prepared by the School and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina
June 10, 1999

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 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.

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.

PAYROLL CALCULATIONS AND PAYMENTS

Of the 35 employees who terminated employment with the School in fiscal year 1998, we tested the personnel and payroll files of 25 and noted the following problems.

Holiday Compensatory Time

At termination two exempt employees were each paid for approximately one day of holiday compensatory time, resulting in a total overpayment of \$261. School personnel responsible for preparing and reviewing these transactions were not aware that exempt employees are not to be paid for holiday compensatory time at the time the employee terminates.

State Human Resources Regulation 19-703.06.E.6. states, "Upon termination from employment a nonexempt employee shall be compensated for all holiday compensatory leave credits. Exempt employees shall not be paid for unused holiday compensatory leave."

Payment of Annual Leave

In its final payment to one employee in our test, the School overpaid \$429 for 36 hours of annual leave which should have been excluded from the annual leave payment. The overpayment occurred because School personnel responsible for preparing and reviewing these transactions did not follow the applicable State Human Resources Regulation.

State Human Resources Regulation 19-703.07 L. provides that, "Upon termination from State employment, for reasons other than retirement or death, an employee may take both annual leave and a lump-sum payment for unused annual leave, but in no event shall such a combination exceed forty-five (45) days in a calendar year except as provided in 19-703.07 E. Leave credit is determinable as of the last day of work. No additional annual leave earnings apply during the period represented by a lump sum payment and service credits are not given for such period." In addition, Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving or a State employee from paying monies not due to employees.

To ensure compliance and accurate and consistent treatment of like transactions, we recommend that the School train all of its employees with personnel and payroll responsibilities in Federal and State laws, rules, and regulations including those applicable to employees terminating employment. We also recommend that the School recover the \$261 and \$429 overpayments.

Deferred Salary Payment Calculation

Certain of the School's employees (e.g., teachers) work a portion of the fiscal year. Such employees have elected for their salaries to be paid over 24 pay periods. In doing so, the School is deferring payment of a portion of the compensation to the part of the year in which the employee is not working. Therefore, when an employee terminates employment during the year, the School must pay the employee the deferred balance as of the termination date.

In our report on the School for fiscal year 1996, we included a finding regarding errors in deferred salary payments to employees at termination of employment. Those errors resulted from calculation errors and from omission of the deferred salary from payments to some employees. The School implemented procedures to identify employees who are terminating who are on the deferred pay plan. In addition, the school developed a computerized spreadsheet to calculate deferred salary amounts.

Of the 25 in our fiscal year 1998 test, the School overpaid one employee \$52 in deferred salary. School personnel used the wrong pay rate to calculate the deferred salary payment. In addition, it appears no one independently reviewed the payment calculation. As noted above, South Carolina Code of Laws Section 8-11-30 states that it is unlawful to receive or pay salary not due.

We recommend School personnel exercise due care when calculating deferred salary payments due to termination of employment. Such computations should be independently reviewed before the payroll voucher is approved. Also, we recommend that the School recover the overpayment of \$52.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding regarding payment of deferred salary at termination of employment reported in the Auditor's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 1996, and dated August 6, 1997. (We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1997.) We determined that the School had taken some corrective actions on the finding which seem to have improved the School's handling of deferred salary payments. However, because the School used the incorrect salary to calculate the deferred salary payment at termination to one employee in our current year's engagement, we have included that finding as part of the Payroll Calculations and Payments comment in Section A of the Accountant's Comments Section of this report.

MANAGEMENT'S RESPONSE