

**SOUTH CAROLINA GOVERNOR'S SCHOOL
FOR SCIENCE AND MATHEMATICS**

HARTSVILLE, 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 Trustees
South Carolina Governor's School
for Science and Mathematics
Hartsville, 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 Science and Mathematics (the School) and by 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 general, 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 (\$400 – general fund, \$10,800 – earmarked fund, \$6,000 – restricted fund, and \$1,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Object Codes 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 (\$27,900 – general fund, \$6,300 – earmarked fund, \$5,500 – restricted fund, and \$600 – 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 (\$27,900 – general fund, \$6,300 – earmarked fund, \$5,500 – restricted fund, and \$600 – 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 Agency'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.

Our finding as a result of these procedures is presented in Authorized Attorney Fees in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

The School's federal grants are included in the State Department of Education's schedule of federal financial assistance.

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Department 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 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 Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina Governor's School
for Science and Mathematics
May 9, 2007

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 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.

AUTHORIZED ATTORNEY FEES

Proviso 32.2 of the fiscal year 2006 Appropriation Act states, "No department or agency of the State Government shall engage on a fee basis any attorney at law except upon written approval of the Attorney General and upon such fee as shall be approved by him."

During our review of the litigation closing package filed by the Department of Education, it was discovered that the School paid attorney fees to a law firm that exceeded maximum compensation authorized by the Attorney General. During fiscal year 2006 the Attorney General's Office authorized payments to a law firm totaling \$2,500; the School made payments to the law firm totaling \$3,516.

We recommend the School develop and implement procedures to ensure that it complies with Proviso 32.2.

REVENUE OBJECT CODES

During our test of cash receipts, we noted two of twenty-five transactions were coded to an incorrect object code. The details of the two exceptions are as follows:

1. Exception one - the School received funds from the South Carolina Commission on Higher Education for the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP). The entire amount was funded from Federal funds. The receipt was coded to object code 2822 (Federal Operating Grants – Restricted) instead of object code 2805 (Federal Grant Sub-Contract State Agencies).
2. Exception two - the School received additional funds for the same program. A portion of these funds was funded from Federal sources and the balance from State general funds. The Federal funded portion was recorded as described in one above. The State funded portion was recorded using object code 7201 (Miscellaneous Revenue) instead of object code 7506 (Other Operating Grants – Restricted).

The results of these coding errors are overstatements of object code 2822 and understatements of object code 2805. Also, object code 7201 was overstated and object code 7506 was understated.

Section 2.1.6.10 of the Comptroller General's STARS Policies and Procedures manual defines revenue object codes.

We recommend the School ensure that personnel responsible for recording receipt transactions are familiar with revenue object code definitions to ensure the proper recording of revenue transactions. In addition, we recommend that revenue transactions be reviewed independently to detect coding errors and ensure timely correction of errors.

MANAGEMENT'S RESPONSE



July 25, 2007

SOUTH CAROLINA
GOVERNOR'S SCHOOL
FOR SCIENCE
& MATHEMATICS

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor 1401
main Street, Suite 1200 Columbia,
SC 29201

Re: Report Release Authorization

401 Railroad Avenue
Hartsville SC 29550
843 383.3900 oi |CI
843 383.3903 FAX

VAW "cgss111-"vg

Dear Mr. Gilbert:

Thank you for forwarding the preliminary draft copy of the report on the performance procedures to the accounting records of the South Carolina governor's School for Science and Mathematics (GSSM) for the fiscal year ended June 30, 2006.

Mr. Ernie Boyd, GSSM's VP for Finance, and I have reviewed the draft and I hereby authorize its release. Attached is a current list of GSSM Board members and their mailing and email addresses.

We respect your findings and will take affirmative steps to address the issues you have identified: paying \$1,016 more in legal fees (total of \$3,516) than estimated by agency (\$2,500) request for authorization and application of incorrect revenue codes on Federal funds operating grant. Some of these steps are outlined in the attachment. Also enclosed, as requested, is a CD with Board names and contact information.

I appreciate the work of you and your staff and we look forward to continuing reviews and improvements in the future.

Sincerely,



Murray Brockman

Attachments: Written Response and Comments
Board List and Contact Information CD

Written response and comments to Accountant's Comments concerning
Governor's School for Science & Mathematics'
State Auditor's Report for fiscal year ended June 30, 2006.

We appreciate and respect the findings and comments and will take affirmative steps to address the three issues you have identified: paying \$1,016 more in legal fees (total of \$3,516) than estimated by agency (\$2,500) request for authorization and application of incorrect revenue codes on Federal funds operating grant. Specifically, we will begin with the following steps to address the identified issues:

Accountant's Comments:

A) Authorized Attorney Fees

Paid more for legal fees than authorization requested and approved by AG (\$3,516 spent, \$2,500 requested and authorized). Difficult to know total hours required in legal matters - and invoices trail by weeks the actual hours billed.

Response Improvement/practices: GSSM will put internal and external checks and limits in place to include:

- 1) Convey to law firm total authorized amount
- 2) Setting a procedure where law firm notifies GSSM when authorized limit is approached.
- 3) GSSM will also deduct from each invoice from authorized amount – sounding an alarm when we get within 20% of total.
- 4) GSSM will review billing estimates with lawyers and increase authorization amounts requested as needed.

B) Revenue Object Codes – assignment to incorrect object code (2 instances)

Exception #1) CHE GEARUP Funds Federal Operating Restricted #2822 instead of correct category of Federal Grant Sub-contract State Agencies, code #2805.

Exception #2) GSSM received additional funds from same program above: portion from Federal and balance from State general funds. State portion recorded in 7201 (Miscellaneous Revenue) instead of object code 7506 (other operating Grants, restricted).

For #1 & 2: CHE transfers these funds with assigned Fed/State breakout. SDE receipts these funds, assigning codes per restricted vs. Federal Grant Sub-contract State_ Agencies.

Response Improvement/practices. GSSM accepts auditor's recommendations in full and staff will meet with SDE staff to review and indicate correct actions:

- ◆ For #1 Above: ONLY use 2805 (Sub-contract State Agencies) and
- ◆ For #2 Above: ONLY use 7506 (Other Operating Grants, restricted).
- ◆ GSSM staff will review receipt assignments and make changes if either 7201 or 2822 is used.
- ◆ GSSM will communicate these exceptions to SDE to enable correct code assignments prior to review.

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