

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

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

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June 6, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
South Carolina Governor's School
for Science and Mathematics
Hartsville, 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 Science and Mathematics 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 Science and Mathematics (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 (\$60 – general fund, \$13,000 – earmarked fund, \$0 – restricted fund, and \$4,800 – federal fund) and +/- 10 percent.

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

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 (\$23,000 – general fund, \$15,000 – earmarked fund, \$7,500 – restricted fund, and \$3,900 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in "Other Capital Outlay Expenditures" 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 (\$23,000 – general fund, \$15,000 – earmarked fund, \$7,500 – restricted fund, and \$3,900 – 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” 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.

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 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 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 conditions described in this section have been identified as a violation of State Laws, Rules or Regulations.

Other Capital Outlay Expenditures

- Condition: We selected and tested 25 non-payroll disbursements and noted four disbursements that were coded to an incorrect account and appear to be non-compliant with Budget Proviso 1.75. The expenditures were for landscape maintenance, security guard service, electricity, and to repair a frozen water cooler and were coded to an “other capital outlay cost” account in the capital projects subfund.
- Cause: The School had a misunderstanding of how Budget Proviso 1.75 was to be applied.
- Effect: The use of capital projects funding for these costs appears to be allowable under Budget Proviso 1.75; however, the School elected to charge the expenditures to an “other capital outlay cost” account rather than closing the capital project and transferring the available funding for use in a non-capital projects fund where the costs could have been charged to the appropriate account.
- Criteria: Budget Proviso 1.75 states that “For Fiscal Year 2010-11 the special schools are authorized to transfer funds among funding categories, including capital funds”.
- Recommendation: We recommend that the School establish procedures to ensure that Budget Provisos are followed and expenditure are charged to the appropriate accounts in order accurately reflect costs of goods/services on their trial balance and be able to effectively monitor those costs.

Personnel Files

- Condition: We selected and tested a total of 29 payroll disbursements including normal payroll, new hire, and terminated employee disbursements. The School could not locate personnel files for three of the 29 disbursements selected for testing; however, the payroll department was ultimately able to provide adequate documentation for testing purposes
- Cause: The School could not locate the personnel files.
- Effect: The payroll department was ultimately able to provide adequate documentation for testing purposes and it was determined that the employees were paid correctly; however, the inability to locate documentation for the employee selected is a violation of state regulation as noted in the Criteria below.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS (CONTINUED)

Personnel Files (Continued)

Criteria: The South Carolina Code of Regulations, Chapter 47, Article 14 requires that each employing unit preserve for five years existing records with respect to individuals in its employ on or after July 1, 1936, including name and social security number. This is also a violation of Section 19-720 of the State Human Resources Regulations concerning recordkeeping, which states that each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to, employment application, all human resources actions reflecting the employees work history with the School, documentation directly related to the employee’s work record and all performance evaluations.

Recommendation: We recommend that the School ensure that all required and current employee documentation be maintained for each employee in his/her personnel file.

SECTION B – OTHER WEAKNESSES

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.

Personnel Files

- Condition: It was noted during our payroll disbursement and new hire testing that current personnel documentation was not always being maintained in the personnel files. Ultimately, the documentation was provided by the personnel department or the payroll 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 or the payroll 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 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 Science and Mathematics 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



SOUTH CAROLINA
GOVERNORS SCHOOL
FOR SCIENCE
& MATHEMATICS

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

Re: GSSM Management Response to Accountants' Report for Year ended
June 30, 2011

Dear Mr. Gilbert:

Thank you and your staff for this important audit process. We are pleased with the review and always find improvements through the process.

In summary, under Section A, seven procedure categories were included and GSSM had five with "No exceptions."

One Section B "weakness" was described with Personnel files officially held at SDE, and in Section C "Status of Prior Audit Findings," the report determined the School has taken adequate corrective action on any previous audit report findings.

The two items under Section A with Auditor's Comments were:

- a) Non-Payroll Disbursement & Expenditures (charges to Capital account) and
- b) Payroll Disbursements & Expenditures (Personnel records)

Item b) above does not apply to GSSM and is the responsibility of SDE HR which keeps GSSM's official records. In addition, this issue was never raised with GSSM during the Audit process.

Detailed responses to these two items are attached and are being addressed as described.

Again, thank you for your time and please call me if you have additional questions.

Sincerely,

Ernie L. Boyd, Jr.
Vice President for Operations/CFO

Cc: Dr. Murray Brockman, GSSM President
Mr. Asa Godbold, GSSM Board Finance Chair

ACCOUNTANTS' COMMENTS

4th Draft - 6/6/12

Governor's School for Science & Mathematics Management's Response

Section A – Violations of State Laws, Rules or Regulation

- 1) Section A Cash receipts & Revenues - No exceptions
- 2) Section A Non-payroll Disbursements & Expenditures: "Other Capital Outlay Expenditures"
Issues cited in Auditors' Comment Section:

Other Capital Outlay Expenditures

Condition: We selected and tested 25 non-payroll disbursements and noted four disbursements that were coded to an incorrect account and appear to be non-compliant with Budget Proviso 1.75. The expenditures were for landscape maintenance, security guard service, electricity, and to repair a frozen water cooler and were coded to an "other capital outlay cost" account in the capital projects subfund.

Cause: The School had a misunderstanding of how Budget Proviso 1.75 was to be applied.

Effect: The use of capital projects funding for these costs appears to be allowable under Budget Proviso 1.75; however, the School elected to charge the expenditures to an "other capital outlay cost" account rather than closing the capital project and transferring the available funding for use in a non-capital projects fund where the costs could have been charged to the appropriate account.

Criteria: Budget Proviso 1.75 states that "For Fiscal Year 2010-11 the special schools are authorized to transfer funds among funding categories, including capital funds".

Recommendation: We recommend that the School establish procedures to ensure that Budget Provisos are followed and expenditure are charged to the appropriate accounts in order accurately reflect costs of goods/services on their trial balance and be able to effectively monitor those costs.

GSSM Response:

GSSM did have a mis-understanding of how Budget Proviso 1.75 was to be applied. While authorized under Proviso 1.75 to use Capital funds to cover operating expenses as required, the school did charge the expenditures to "other capital outlay cost" account instead of closing the capital project and transferring available funding.

Remedy: GSSM is working through State Capital Budget Office to detail completion of all capital items (Activity field lighting, install emergency HVAC (air conditioning) capacity into IT server room, etc.) and transfer appropriate balance of funds for Furniture, Fixture & Equipment (FF&E) into general expenditure accounts for better tracking.

Background issues:

-The transfers & proviso were specific to help maintain program quality by offsetting severe budget cuts during this time period

-The capital project during this time period was underway (and still is). School's understanding was that if we closed the A-1 Capital Project Account, we'd have to re-submit for A-1 status for completion of campus construction items, a detailed process.

-We are working with State Capital Budget Office to complete construction items and transfer FF&E funds into appropriate categories.

3) Section A: Payroll Disbursements & Expenditures - Auditors' Comments Section

Personnel Files

Condition: We selected and tested a total of 29 payroll disbursements including normal payroll, new hire, and terminated employee disbursements. The School could not locate personnel files for three of the 29 disbursements selected for testing; however, the payroll department was ultimately able to provide adequate documentation for testing purposes

Cause: The School could not locate the personnel files.

Effect: The payroll department was ultimately able to provide adequate documentation for testing purposes and it was determined that the employees were paid correctly; however, the inability to locate documentation for the employee selected is a violation of state regulation as noted in the Criteria below.

Criteria: The South Carolina Code of Regulations, Chapter 47, Article 14 requires that each employing unit preserve for five years existing records with respect to individuals in its employ on or after July 1, 1936, including name and social security number. This is also a violation of Section 19-720 of the State Human Resources Regulations concerning recordkeeping, which states that each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to, employment application, all human resources actions reflecting the employees work history with the School, documentation directly related to the employee's work record and all performance evaluations.

Recommendation: We recommend that the School ensure that all required and current employee documentation be maintained for each employee in his/her personnel file.

GSSM Response:

This citation does not apply to GSSM; the School was never asked to locate personnel files or listed disbursements.

SDE/HR is the keeper of the records indicated and this item is responsibility of SDE/HR. This issue was never presented to GSSM for response (first we'd heard about issue was in just-received Accountant's Report, June 21). GSSM and SDE are researching how this was presented via GSSM.

GSSM requests that this citation be removed from the School's report.

Remedy: GSSM is working with SDE to identify any issues that apply to the school and how to support SDE in maintaining records as appropriate and required.

#4) Section A Journal Entries, Operating Transfers & Appropriation Transfers: No Exceptions

#5) Section A Appropriations Act (general and school-specific provisos): No Exceptions

#6) Section A Closing packages: No Exceptions

#7) Section A Status of Prior Findings: No Exceptions

Governor's School for Science & Mathematics Management's Response, continued...

4th Draft - 6/6/12

SECTION B – OTHER WEAKNESSES

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.

Personnel Files

Condition: It was noted during our payroll disbursement and new hire testing that current personnel documentation was not always being maintained in the personnel files.

Ultimately, the documentation was provided by the personnel department or the payroll 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 or the payroll 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.

GSSM Response:

This citation does not apply to GSSM, the School was never asked to locate personnel files or listed disbursements.

SDE/HR is the keeper of the records indicated and this item is responsibility of SDE/HR. This issue was never presented to GSSM for response (first we'd heard about issue was in just-received Accountant's Report, June 21). GSSM and SDE are researching how this was presented via GSSM.

GSSM requests that this citation be removed from the School's report.

Remedy: GSSM is working with SDE to identify any issues that apply to the school and how to support SDE in maintaining records as appropriate and required.

Section C – Status of Prior Audit Findings - Determined the School has taken adequate correction action on each of the prior findings.