

**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, 2012

State of South Carolina



Office of the State Auditor

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June 25, 2013

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, 2012, 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 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, 2012, 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 (\$97 – general fund, \$7,500 – earmarked fund, \$0 – restricted fund, and \$73 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in "Cash Receipt Account Coding" and "Sale of Surplus Equipment" 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 (\$50,000 – general fund, \$97,000 – earmarked fund, \$12,000 – restricted fund, and \$1,800 – 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 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 (\$50,000 – general fund, \$97,000 – earmarked fund, \$12,000 – restricted fund, and \$1,800 – 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. Our findings as a result of these procedures are presented in "Terminated Employee" and "Benefits Expenditures Distribution" in the Accountant's 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. Our findings as a result of these procedures are presented in "Recording of Operating Transfers", "Operating Transfer Documentation", and "Appropriation Transfer Documentation" in the Accountant's Comments section of this report.

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. **Reporting Packages**

The School's data is included in reporting packages submitted by the Department.

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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 Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures on the School for the fiscal year ended June 30, 2011, to determine if School had taken corrective action.

Our findings as a result of these procedures are presented in "Cash Receipt Account Coding" and "Benefits Expenditures Distribution" 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, 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
June 24, 2013

ACCOUNTANT'S 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

Sale of Surplus Equipment

- Condition: The School sold a surplus salad bar without holding a public auction or receiving sealed bids for the salad bar.

- Cause: The School purchased a new salad bar and sold the surplus salad bar to the vendor that delivered the new salad bar. The School was unaware that the salad bar had to be sold via public auction or by receiving sealed bids.

- Effect: The School was not in compliance with the South Carolina Code of Laws section 11-35-3810.

- Criteria: Section 11-35-3810 of the South Carolina Code of Laws requires that surplus items be sold via public auction or by receiving sealed bids.

- Recommendation: We recommend that the School consider holding public auctions or receiving sealed bids when selling surplus equipment in order to maintain compliance with the South Carolina Code of Laws.

SECTION B – 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 Cost Recording

- Condition:** It was noted during our revenues analytics that indirect costs increased in fiscal year 2012 despite federal revenues and expenditures decreasing. Indirect costs that related to fiscal year 2011 were ultimately caught up and posted in fiscal year 2012 (as the maximum allowable indirect costs were ultimately charged).
- Cause:** There was turnover in grants personnel who were responsible for posting indirect costs in fiscal year 2011. This resulted in a delay in posting indirect costs.
- Effect:** Prior year indirect costs were understated and current year indirect costs were overstated.
- Criteria:** Indirect costs should be posted in full each fiscal year.
- 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.

Cash Receipt Account Coding

- Criteria:** The School received a reimbursement from Lander University for meals and lodging by attendees of a Curriculum Leadership Institute in the Arts conference. The reimbursement was recorded to account #30350000-4380200000 Training Conference Registration Fees, which is for fees charged for registration at a training conference, seminar or workshop. The reimbursement from Lander University does not appear to qualify as one of these items; thus, it should not have been recorded to this account number.
- Cause:** School staff coded the transaction incorrectly.
- Effect:** Revenues for account #30350000-4380200000 were overstated and the appropriate revenue account was understated.
- Criteria:** Transactions should be recorded to the correct general ledger accounts when being processed in order to provide for accurate oversight and meaningful comparative information.
- Recommendation:** We recommend that the School follow policies and procedures in place to ensure accurate coding of receipts.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Terminated Employee

- Condition: It was noted during our test of employees who terminated employment that one employee was not removed from the payroll system in a timely manner. The employee was terminated on July 24, 2011, but was not removed from the payroll system until December 2, 2011.
- Cause: Termination paperwork was not processed in a timely manner.
- Effect: The lack of timely completion of the termination paperwork did not result in any overpayments made to the employee.
- Criteria: The South Carolina Department of Education’s Termination Policy #607.1 states that termination papers must be submitted within the pay period in which the action occurs.
- Recommendation: We recommend that termination paperwork be processed in accordance with the South Carolina Department of Education’s policies.

Benefits Expenditures Distribution

- Condition: During our payroll and benefit expenditure analytics, we noted that the retirement and health insurance expenditures appeared to be understated in the Federal Fund.
- Cause: The School recorded a journal entry reclassifying salaries and benefits expenditures from the General Fund to the Federal Fund; however, the benefits expenditures were not reclassified at the appropriate percentages from the General Fund to the Federal Fund.
- Effect: Benefits expenditures charged to the Federal Fund were understated and benefits expenditures charged to the General Fund were overstated.
- Criteria: Benefits expenditures should in general be charged in proportion to the salaries charged to the fund.
- Recommendation: We recommend that salaries and benefits expenditures be charged originally and/or through subsequent reclassifying journal entries to each fund at the appropriate percentages/amounts.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Recording of Operating Transfers

- Condition: During our operating transfers testing, it was noted that two operating transfers were recorded to an incorrect general ledger account/commitment item as the entries recording the transfers debited operating transfers in and credited operating transfers out (when the opposite should have occurred). This also resulted in inappropriate balances in the operating transfer accounts.
- Cause: The entries recording the operating transfers were recorded to an incorrect account.
- Effect: There were inappropriate balances in the operating transfers in and operating transfers out accounts; however, there was no net effect as the transfers that were recorded.
- Criteria: Transactions should be recorded to the correct general ledger account/commitment item.
- Recommendation: We recommend that a thorough review of operating transfers be performed to ensure that the amounts are being recorded to the appropriate accounts.

Operating Transfer Documentation

- Condition: It was noted during our operating transfers testing that documentation supporting the exact amount of one operating transfer could not be located. Documentation supporting an amount close to the operating transfer was re-created; however, the original documentation could not be located.
- Cause: The employee who recorded the transfer is no longer employed by the School/Department of Education and the supporting documentation could not be located.
- Effect: Documentation supporting the exact amount of the transfer could not be located.
- Criteria: Supporting documentation for all operating transfers should be maintained to substantiate the operating transfers and ensure that the operating transfers were recorded correctly.
- Recommendation: We recommend that supporting documentation for all operating transfers be maintained and scanned in SCEIS.

SECTION B – OTHER WEAKNESSES (CONTINUED)

Appropriation Transfer Documentation

- Condition: It was noted during our appropriation transfers testing that documentation supporting the exact amount for one of the appropriation transfer could not be located. Documentation supporting an amount close to the appropriation transfer was re-created; however, the original documentation could not be located.
- Cause: The employee who recorded the transfer is no longer employed by the School/Department and the supporting documentation could not be located.
- Effect: Documentation supporting the exact amount of the transfer could not be located.
- Criteria: Supporting documentation for all appropriation transfers should be maintained to substantiate the appropriation transfers and ensure that the appropriation transfers were recorded correctly.
- Recommendation: We recommend that supporting documentation for all appropriation transfers be maintained.

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 Accountants' Comments section of the Independent Accountants' Report on the Governor's School for the Arts and Humanities for the fiscal year ended June 30, 2011, dated June 6, 2012. We determined that the School has taken adequate corrective action on each of the prior year audit findings with the exception of the findings entitled "Income Statement Coding" and "Fringe Benefits". Similar findings entitled "Cash Receipt Account Coding" and "Benefits Expenditures Distribution" are presented in the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

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, 2012. The responses are in the order and numbered according to the Draft Summary Comments/Findings

1. The Governor's School purchased a new salad bar from a vendor and sold the surplus/scrap salad bar to the same vendor without having a public auction competitive sealed bids as required by Section 11-35-3810 of the SC Code of Laws. We recommend that all surplus items be sold via public auction as required by the SC Code of Laws.

Response: We agree and will follow state procedures in the future.

2. Indirect costs increased in FY 2012 although federal revenues/expenditures decreased due to the full amount of indirect costs not being charged in FY 2011; thus, indirect cost charges were caught up in FY 2012. Indirect costs charges are handled by the SDE, not GSAH, and there were some changes as to who was going to post indirect costs to the grants so there was a delay in posting indirect costs for FY 2011. 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: We will work with the State Department of Education to post indirect costs in the fiscal year in which they occur.

3. The GSAH received a reimbursement from Lander University as a reimbursement for meals served and nights stayed by attendees of a Curriculum Leadership Institute in the Arts ("CLIA") conference, which was recorded to account #30350000-438020000 Training Conference Registration Fee. This account is for fees charged for registration at a training conference, seminar or workshop. The amounts received by GSAH were not for registration for the CLIA conference and should not have been recorded to this account. In the past, the revenues had been recorded as miscellaneous revenue, which appears to be the correct recording. We recommend that GSAH record these CLIA revenues to miscellaneous revenue in the future

Response: We agree that the coding in FY 2011 was incorrect and we will use miscellaneous revenues going forward, as we did in FY 2012.

4. The revenues for the federal energy grant were recording to account #53550000-4300010000 Other Operating Grants in FY 2011 and account #53550000-4280020000 in FY 2012. It appears that the revenues were recorded to an incorrect account in FY 2011, but that it was corrected during FY 2012. We recommend that the revenues be recorded to the appropriate accounts when processing cash receipts to ensure proper identification and consistency from year to year.

Response: Since SCGSAH had no control over the coding of the revenues from the Energy Grant, we have no comment on this item.

5. During our testing of five terminated employees, it was discovered that one terminated employee was not entered in the payroll system as terminated in a timely manner. The employee was terminated on July 24, 2011; however the Department of Education did not record the employee as terminated in SCEIS until December 2, 2011. Despite the lack of timely completion of paperwork and termination in the SCEIS system, the employee was paid appropriately. The lack of timely completion of paperwork is a violation of the South Carolina Department of Education's Termination Policy #607.1, which states that termination papers must be submitted within the pay period in which the action occurs. We recommend that termination paperwork be processed in a timely manner in accordance with the SDE's regulations to limit the risk of overpayment or incorrect payments made to terminated employees.

Response: We agree and will work with Human Resources at the Department of Education to insure timely processing of termination paperwork.

6. Two of the four operating transfers tested were recorded to an incorrect account code (transfers in were recorded to the transfers out account and transfers out were recorded to the transfers in account). We recommend that operating transfers be recorded to the appropriate transfer accounts.

Ina addition, documentation supporting the exact amount of one transfer could not be located as the technician who processed the transfer was no longer employed by the SDE. The SDE was able to provide documentation supporting the amount close to the amount transferred; however they were unable to provide the original documentation supporting the exact amount of the transfer. We recommend that supporting documentation be maintained for all operating transfers.

Response: We agree and will work with the Department of Education to insure that operating transfers are properly recorded and documented

7. Original supporting documentation could not be located for one of the five appropriation transfers tested due to the budget technician who processed the transfers no longer working with the SDE. We recommend that supporting documentation be maintained for all appropriation transfers.

Response: We agree with will work with the Department of Education to assist in maintaining supporting documentation.

8. The payroll benefits charge to the Federal Fund were understated due to the following: GSAH reclassified \$50k in salaries from the General Fund to the federal IDEA grant via journal voucher enter #6900005729 and #6900006419; however, they only moved \$9k of benefits/fringe expenditures (\$5k in retirement and \$4k in FICA). The benefits were not moved in proportion with the salaries as the retirement percentage would typically be 13-14% and the health insurance would typically be ~10%. This caused retirement and health insurance to be understated in proportion to salaries, which resulted in a net understatement of benefits charged to the Federal Fund and an overstatement in the General Fund (netted to zero between the two funds).

Response: We agree that benefits should be moved in proportion to salaries and will work with the Department of Education on this issue.

9. A similar finding was noted in the prior year for item #8 above; thus, this will also be noted in the status of prior year findings portion of the report.

Response: Please see our response to item 8.

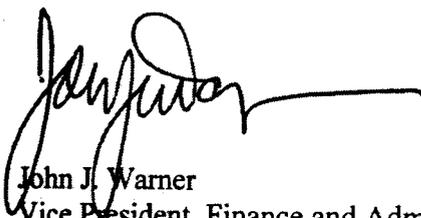
10. A similar finding was noted in the prior year for item #3 above; thus, this will also be noted in the status of prior year findings portion of the report.

Response: Please see our response to item 3.

End of Management's Response.

Please let me know if you need further information.

Sincerely



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