

South Carolina School for the Deaf and Blind

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2006

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 11, 2007

The Honorable Mark Sanford, Governor
and
Members of the Board of Commissioners
South Carolina School for the Deaf and the Blind
Spartanburg, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina School for the Deaf and the Blind for the fiscal year ended June 30, 2006, was issued by Scott McElveen, L.L.P., 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

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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 Members of the Board of Commissioners and management of the South Carolina School for the Deaf & Blind (the "School") and the South Carolina Office of the State Auditor, 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 25 randomly 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 10 randomly selected recorded receipts before and after year-end 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 remittances 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 School's accounting records. The scope was based on agreed-upon materiality levels (\$67,000 – general fund, \$46,000 – earmarked fund, \$41,000 – restricted fund, and \$17,000 – Federal fund) and +/- 10 percent.

Our findings as a result of these procedures are presented in Sections A and B in the Accountants' Comments section of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected 25 randomly 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; and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 randomly selected recorded non-payroll disbursements before and after year-end 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 School's accounting records. The scope was based on agreed-upon materiality levels (\$67,000 – general fund, \$46,000 – earmarked fund, \$41,000 – restricted fund, and \$17,000 – Federal fund) and +/- 10 percent.

We found no exceptions as a result of the procedures.

3. Payroll Disbursements and Expenditures

- We inspected 25 randomly 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 5 randomly 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 5 randomly selected new employees and 5 randomly selected individuals 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 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 School's accounting records. The scope was based on agreed-upon materiality levels (\$67,000 – general fund, \$46,000 – earmarked fund, \$41,000 – restricted fund, and \$17,000 – 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.

Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 5 recorded journal entries, 5 operating transfers, and 5 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 were chosen randomly. We found no exceptions as a result of the procedures.

5. General Ledger and Subsidiary Ledgers

- We inspected 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 selected entries were processed in accordance with the School's policies and procedures and State regulations.

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

6. Reconciliations

- We obtained all of the monthly reconciliations prepared by the School for the year ended June 30, 2006, and inspected selected reconciliations of balances in the School's accounting records to those in STARS as reflected in 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 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 individual reconciliations selected were chosen judgmentally. Our finding as a result of these procedures is presented in Section A in the Accountant's Comments section of this report.

7. 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 specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of closing packages as of and for the year ended June 30, 2006, prepared by the 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 Section B in the Accountants' Comments section of this report.

9. 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 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; and if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

10. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on the School resulting from our engagement for the fiscal year ended June 30, 2004, to determine if the School had taken corrective action. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2005.

Our findings as a result of these procedures are presented in Section C in the Accountants' 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 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, Members of the Board of Commissioners, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina

April 25, 2007

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 violations of State Laws, Rules or Regulations.

Untimely Deposit of Receipts

Section 72.1 of the fiscal year 2005-06 Appropriation Act requires revenues to be remitted to the State Treasurer at least once each week, when practical. In three of the twenty-five deposits tested, the receipts were not deposited within seven days as required by School procedure and State law. Walker Gift Shop receipts for the week of December 5th – 11th, totaling \$536.90, were deposited on December 14th; receipt number 601262, totaling \$3,266.67, which was received on January 18, 2006, was deposited on January 26, 2006; and receipt number 601428, totaling \$157.50 was received on February 10, 2006 and deposited February 23, 2006.

In addition, the date of the receipt was not recorded for two of the twenty-five receipts inspected. No date was recorded for cash receipt 601364 or 602150 totaling \$1,058.40 and \$661.11, respectively. Therefore, it could not be determined if the receipts were deposited within 7 days.

We recommend all School personnel who handle cash receipts be provided training to ensure that they are aware of current State law pertaining to the deposit of cash receipts. In addition, the School should develop and implement procedures to ensure that cash receipts are deposited timely as defined by Section 72.1 of the Appropriation Act. Finally, the School should develop and implement procedures for improved documentation of Walker Gift Shop Receipts. This will allow the Gift Shop personnel to assist with the timely deposit of receipts.

Reconciliations

There was no evidence on the revenue reconciliations documenting when the reconciliations were prepared or reviewed. In addition, none of the expense reconciliations we tested were signed off on by the preparer. Neither the preparer nor the reviewer of the revenue reconciliations recorded the date in which they prepared/reviewed the reconciliations. As this was a new duty assigned to the preparer of the expense reconciliations, she was not aware that her signature was required. As a result, we were unable to determine if the revenue and expense reconciliations were performed in a timely manner. In addition, responsibility for the preparation of the expense reconciliations was not documented. Sound internal controls require that all reconciliations be properly signed off on and dated by both the preparer and the reviewer, and therefore, we recommend that the reconciliation process be completed in a timely manner with proper documentation included with the reconciliations.

SECTION B - OTHER COMMENTS

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

Improper Classification of Revenue

When testing cash receipts, we selected receipt number 601694 which was for an amount received for copier rental by the Walker Foundation. The receipt was recorded to object code 7803 which is described as sale of services. The receipt should have been recorded to object code 7407 which is described as equipment rental revenue. Also, a transfer made via an appropriation transfer was recorded to the incorrect object code. The amount should have been recorded to object code 7604 but was recorded to object code 7804 in error.

The improper coding was due to an oversight by management. The oversight could cause inaccurate presentation of revenue sources and improper budgeting.

We recommend that management review existing revenue sources and ensure they are recorded to the proper object code. For any new revenue sources, the proper coding should be assigned to the revenue source by accounting personnel and approved by the Chief Financial Officer (CFO) prior to recording the receipts.

Employee Payroll Withholdings

When testing individual payroll transactions we found that the IRS Form W-4 exemptions for two of the twenty-five employees tested did not agree with the employees' actual federal income tax withholdings. One employee's withholding rate on their IRS Form W-4 documented single with zero exemptions and the payroll system was withholding at a rate of single with five exemptions. Another employee's withholding on their IRS Form W-4 documented single with zero exemptions and the payroll system was withholding at a rate of single with two exemptions. The employee requested withholdings rate and exemptions were either input to the payroll system incorrectly or had not updated properly.

The amount of federal taxes withheld from the employees' paychecks were significantly lower than the amount requested to be withheld by the employee. At year end, the employee's IRS Form W-4, Box 2 will reflect a much smaller amount of taxes withheld by the employer than requested by the employee. The IRS regulations require employers to maintain a copy of an employee endorsed W-4 on file. The IRS provides tables for each withholding and exemption rate in Publication 15 (Circular E). The employer is required to calculate and withhold the applicable amount of income taxes requested by the employee.

We recommend that the School ensure that the income taxes withheld from employees' paychecks agree to the amount requested by the employee on the IRS Form W-4.

SECTION B - OTHER COMMENTS (continued)

Schedule of Federal Financial Assistance

The Schedule of Federal Financial Assistance (the “Schedule”) was not submitted properly. Several revisions were required, and it was not submitted to the satisfaction of the Office of the State Auditor until November 7, 2006. This was due to the fact that the School’s general ledger had not been reconciled to the Comptroller General’s STARS system at the time of preparation. In addition, management could not provide reports from the general ledger that agreed to the amounts reported on the Schedule when it was requested. Further, they could not provide the Comptroller General’s report from which the Schedule was prepared.

We recommend that the School follow the instructions on how to prepare the Schedule to ensure that it is submitted properly and on time. We also recommend that the School reconcile the accounts every month to ensure that the general ledger is in agreement with the Comptroller General’s reports. When the final report is completed, the School should retain all supporting documentation with a copy of the final report.

Capital Assets Closing Packages

The State Comptroller General’s Office obtains Generally Accepted Accounting Principles (GAAP) data from agency-prepared closing packages for the State’s financial statements. The GAAP Closing Procedures Manual states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions and further states that, “The accuracy of closing package data is extremely important.”

The Capital Asset Closing Package (the “closing package”) was not submitted properly. The School classified some construction as construction in process; however the construction projects were substantially completed and should have been classified as completed capital assets projects. The School recognized the error and notified the Comptroller General’s Office that the School would be submitting an amended closing package. Because the Comptroller General’s Office was up against a tight deadline, the Comptroller General’s Office was not able to wait for the School to submit a revised closing package. Instead, the Comptroller General’s Office amended the School’s closing package based on the information provided to them by the School. The Comptroller General’s Office subsequently sent the School a copy of the amended closing package.

We recommend that the School classify capital projects into the proper accounts to ensure that the closing packages can be submitted on time and no amendments will be needed.

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 Accountants' Comments section of the Independent Accountants' Report on the School for the fiscal year ended June 30, 2004, and dated June 2, 2005. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2005. We determined that the School has taken adequate corrective action on each of the findings except for the following which have been repeated in Section A of this report:

2004 Comment Title

Reconciliations

Payroll Disbursement and Expenditures

2006 Comment Title

Reconciliations

Employee Payroll Withholdings



SHEILA S. BREITWEISER, ED.D.
PRESIDENT

To: Mr. Rich Gilbert, CPA
State Auditor, State of South Carolina

From: Jon Castro, CPA
CFO South Carolina School for the Deaf and Blind

Date: 06/18/07

Enclosed is the South Carolina School for the Deaf, Blind, and Multihandicapped Management's Response to Applying Agreed Upon Procedures for Fiscal Year 2005-2006.

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 violations of State Laws, Rules or Regulations.

Untimely Deposit of Receipts

Section 72.1 of the fiscal year 2005-06 Appropriation Act requires revenues to be remitted to the State Treasurer at least once each week, when practical. In three of the twenty-five deposits tested, the receipts were not deposited within seven days as required by School procedure and State law. Walker Gift Shop receipts for the week of December 5th – 11th, totaling \$536.90, were deposited on December 14th; receipt number 601262, totaling \$3,266.67, which was received on January 18, 2006, was deposited on January 26, 2006; and receipt number 601428; totaling \$157.50 was received on February 10, 2006 and deposited February 23, 2006.

In addition, the date of the receipt was not recorded for two of the twenty-five receipts inspected. No date was recorded for cash receipt 601364 or 602150 totaling \$1,058.40 and \$661.11, respectively. Therefore, it could not be determined if the receipts were deposited within 7 days.

We recommend all School personnel who handle cash receipts be provided training to ensure that they are aware of current State law pertaining to the deposit of cash receipts. In addition, the School should develop and implement procedures to ensure that cash receipts are deposited timely as defined by Section 72.1 of the Appropriation Act. Finally, the School should develop and implement procedures for improved documentation of Walker Gift Shop Receipts. This will allow the Gift Shop personnel to assist with the timely deposit of receipts.

Agree. Error caused by lack of attention paid to 7 day rule. Other departments were not aware of the need for quick deposit. This will become a training item for the training plan. All personnel currently handling funds and any new personnel will be made aware of the appropriate procedures to ensure that all dollars are recorded and deposited within the seven day window. Also, the Walker GO Shop does have the ability to produce daily and/or weekly sales information and will provide this information going forward.

Reconciliations

There was no evidence on the revenue reconciliations documenting when the reconciliations *were* prepared or reviewed. In addition, none of the expense reconciliations we tested were signed off on by the preparer. Neither the preparer nor the reviewer of the revenue reconciliations recorded the date in which they prepared/reviewed the reconciliations. As this was a new duty assigned to the preparer of the expense reconciliations, she was not aware that her signature was required. As a result, we were unable to determine if the revenue and expense reconciliations were performed in a timely manner. In addition, responsibility for the preparation of the expense reconciliations was not documented. Sound internal controls require that all reconciliations be properly signed off on and dated by both the preparer and the reviewer, and therefore, we recommend that the reconciliation process be completed in a timely manner with proper documentation included with the reconciliations.

Agree. Some reconciliations were completed beyond the end of the month. The reviewer had to send them back to preparer for correction. All reconciliations will be signed and dated by the preparer and reviewer to provide evidence that the procedure was performed and reviewed in a timely manner. We will also document who is responsible for preparing and reviewing each required reconciliation.

SECTION B - OTHER COMMENTS

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

Improper Classification of Revenue

When testing cash receipts, we selected receipt number 601694 which was for an amount received for copier rental by the Walker Foundation. The receipt was recorded to object code 7803 which is described as sale of services. The receipt should have been recorded to object code 7407 which is described as equipment rental revenue. Also, a transfer made via an appropriation transfer was recorded to the incorrect object code. The amount should have been recorded to object code 7604 but was recorded to object code 7804 in error.

The improper coding was due to an oversight by management. The oversight could cause inaccurate presentation of revenue sources and improper budgeting.

We recommend that management review existing revenue sources and ensure they are recorded to the proper object code. For any new revenue sources, the proper coding should be assigned to the revenue source by accounting personnel and approved by the Chief Financial Officer (CFO) prior to recording the receipts.

Agree. Comptroller General's staff error not caught by SCSDB Finance staff and, as a result, an improper revenue code was charged. Also, an error in coding by Finance Department Staff resulted in an appropriation transfer being made with the wrong object code.

As a result, the CFO and managers will periodically screen the revenue code accounts used during the year for erroneous revenue codes. The CFO will sign-off on any new revenue codes to be used.

Employee Payroll Withholdings

When testing individual payroll transactions we found that the IRS Form W-4 exemptions for two of the twenty-five employees tested did not agree with the employees' actual federal income tax withholdings. One employee's withholding rate on their IRS Form W-4 documented single with zero exemptions and the payroll system was withholding at a rate of single with five exemptions. Another employee's withholding on their IRS Form W-4 documented single with zero exemptions and the payroll system was withholding at a rate of single with two exemptions. The employee requested withholdings rate and exemptions were either input to the payroll system incorrectly or had not updated properly.

The amount of federal taxes withheld from the employees' paychecks was significantly lower than the amount requested to be withheld by the employee. At year end, the employee's IRS Form W-4, Box 2 will reflect a much smaller amount of taxes withheld by the employer than requested by the employee. The IRS regulations require employers to maintain a copy of an employee endorsed W-4 on file. The IRS provides tables for each withholding and exemption rate in Publication 15 (Circular E). The employer is required to calculate and withhold the applicable amount of income taxes requested by the employee.

We recommend that the School ensure that the income taxes withheld from employees' paychecks agree to the amount requested by the employee on the IRS Form W-4.

Agree. Incomplete employee forms default to prior status. A higher level of coordination between Human Resources and Finance will be implemented. Internal payroll audit by department cycle will be performed. Periodic reconciliation of the W-4 information will become a departmental scorecard item.

Schedule of Federal Financial Assistance

The Schedule of Federal Financial Assistance (the "Schedule") was not submitted properly. Several revisions were required, and it was not submitted to the satisfaction of the Office of the State Auditor until November 7, 2006. This was due to the fact that the School's general ledger had not been reconciled to the Comptroller General's STARS system at the time of preparation. In addition, management could not provide reports from the general ledger that agreed to the amounts reported on the Schedule when it was requested. Further, they could not provide the Comptroller General's report from which the Schedule was prepared.

We recommend that the School follow the instructions on how to prepare the Schedule to ensure that it is submitted properly and on time. We also recommend that the School reconcile the accounts every month to ensure that the general ledger is in agreement with the Comptroller General's reports. When the final report is completed, the School should retain all supporting documentation with a copy of the finale report.

Agree. This error was caused by preparer oversight, and missing information. This error has been corrected by a more experienced accounting manager. This area has been reassigned to a newly hired degreed accountant in FY06/07.

Capital Assets Closing Packages

The State Comptroller General's Office obtains Generally Accepted Accounting Principles (GAAP) data from agency-prepared closing packages for the State's financial statements. The GAAP Closing Procedures Manual states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions and further states that, "The accuracy of closing package data *is* extremely important"

The Capital Asset Closing Package (the "closing package") was not submitted properly. The School classified some construction as construction in process; however the construction projects were substantially completed and should have been classified as completed capital assets projects. The School recognized the error and notified the Comptroller General's Office that the School would be submitting an amended closing package. Because the Comptroller General's Office was up against a tight deadline, the Comptroller General's Office was not able to wait for the School to submit a revised closing package. Instead, the Comptroller General's Office amended the School's closing package based on the information provided to them by the School. The Comptroller General's Office subsequently sent the School a copy of the amended closing package.

We recommend that the School classify capital projects into the proper accounts to ensure that the closing packages can be submitted on time and no amendments will be needed.

Agree. Some funds spent on Construction Projects that were substantially complete remained in the category of "Construction in Progress" . The closing package reviewer made an error in assuming that amounts subject to a contract controversy prevented reclassification to the "substantially complete" category. This reviewer error was caught by the State Auditors and returned to SCSDb for adjustment to the closing package. Reviewer will re-read all fixed asset closing documentation to make sure the mechanics are understood before attempting next year's Fixed Asset Closing Package.

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 Accountants' Comments section of the Independent Accountants' Report on the School for the fiscal year ended June 30, 2004, and dated June 2, 2005. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 2005. We determined that the School has taken adequate corrective action on each of the findings except for the following which have been repeated in Section A of this report:

2004 Comment Title

Reconciliations

Payroll Disbursement and Expenditures

2006 Comment Title

Reconciliations

Employee Payroll Withholdings

In the broadest context we agree with the finding. However, in both cases above, the nature of the errors in 2006 is different, and of lesser significance, than those in 2004.

In the case of reconciliations, in 2006, reconciliations were done each month but not signed off each month because of error corrections. The reviewer would send each reconciliation back to preparer for corrections before signing-off In 2004, some monthly reconciliations were not attempted until several months later due to manpower and training issues. We believe, that with the 2006 finding, there is a distinction and lesser weakness of internal control than with the 2004 finding even though is distinction does not eliminate a Section C classification.

In the case of the payroll area, in 2006, 2 of 25 records contained incorrect federal tax withholdings. In the 2004 findings, 5 of 25 records were missing employee withholding documentation and 2 out 5 terminated employees tested were missing the proper documentation. We believe that the 2006 findings while still technically an internal control weakness represent an improvement over the findings in 2004.