

**SOUTH CAROLINA SCHOOL
FOR THE DEAF AND THE BLIND
SPARTANBURG, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 2010**

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
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June 10, 2011

The Honorable Nikki R. Haley, 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, 2010, was issued by Elliott Davis, LLC, 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 ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 10, 2011

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 management of the South Carolina School for the Deaf and the Blind (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2010, in the areas addressed. The Agency'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 Statewide Accounting and Reporting System (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. Effective November 1, 2009, the Agency implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Agency.
- 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 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 (\$175,000 – earmarked fund, \$119,000 – restricted fund, and \$27,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipts 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 Agency, 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. Effective November 1, 2009, the Agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Agency.
- We compared current year expenditures at the subfund and 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 (\$183,000 – general fund, \$165,000 – earmarked fund, \$105,000 – restricted fund, and \$11,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 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 (\$183,000 – general fund, \$165,000 – earmarked fund, \$105,000 – restricted fund, and \$11,000 – 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 Agency's accounting records.

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

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 Agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Journal Entries and Transfers in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency 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 individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in General Ledger and Subsidiary Ledgers in the Accountant's Comments section of this report.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2010, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency's accounting records and/or in STARS. Effective November 1, 2009, the Agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Agency.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.

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 these procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, prepared by the Agency 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 work papers and accounting records.

Our findings as a result of these procedures are presented in Closing Packages in the Accountant's 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, 2010, prepared by the Agency 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 agreed with the supporting work papers and accounting records.

Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

10. **SCEIS Implementation**

- We compared cash, revenue and expenditure account closing balances from the Agency's legacy system to opening balances input into SCEIS to ensure that the Agency carried forward the proper account balances to SCEIS.

Our findings as a result of these procedures are presented in SCEIS Implementation in the Accountant's Comments section of this report.

11. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the State Auditor's engagement for the fiscal year ended June 30, 2007. We applied no procedures to the Agency's accounting records and internal controls for the years ended June 30, 2009 and 2008.

Our findings as a result of these procedures are presented in Closing Packages and Reconciliations in the Accountant's Comments section of this report.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
June 10, 2011

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, Office of the State Auditor, governing body and management of the South Carolina School for the Deaf and the Blind and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
June 10, 2011

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

CLOSING PACKAGES

Section 1.7 of the Comptroller General's Closing Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely". Our procedures related to the Agency's closing packages disclosed the following exceptions:

- The Capital Assets Overview Form (GAAP Form 3.8.1) was submitted to the Comptroller General's Office twelve days after the due date.
- The Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1) was submitted to the Comptroller General's Office twelve days after the due date.
- The Capital Assets Summary Form (GAAP Form 3.9.1) was submitted to the Comptroller General's Office twelve days after the due date.
- The Accumulated Depreciation Summary Form (GAAP Form 3.9.2) was submitted to the Comptroller General's Office twelve days after the due date.
- The Operating Lease Overview Form (GAAP Form 3.19.1) was submitted to the Comptroller General's Office seven days after the due date.
- The Compensated Absences Overview Form (GAAP Form 3.17.1) was submitted to the Comptroller General's Office two days after the due date.
- The Master Closing Package Control Checklist (GAAP Form 2.0.1) was submitted to the Comptroller General's Office six days after the due date.
- The Agency did not prepare a Cash and Investments Closing Package.
- The Agency did not prepare an Accounts Payable Closing Package.
- The Agency did not prepare a Miscellaneous Revenue Closing Package.

We recommend that the Agency develop and implement procedures to ensure that all closing packages are completed in accordance with the Comptroller General's Closing Procedures Manual instructions. Also, we recommend that the Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

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.

RECEIPTS

We tested twenty-five receipts and noted one receipt in the amount of \$247,844.82 that could not be traced to the general ledger.

As a result, cash and accounts receivable as reported by the Agency were potentially understated by this amount.

We recommend that the Agency review its procedures for recording receipts. Based on the review, we recommend that the Agency implement procedures to ensure that all receipts are properly recorded in the general ledger.

JOURNAL ENTRIES AND TRANSFERS

We tested twenty-five journal entries and twenty-five appropriation transfers and noted the following findings:

- The purpose of the journal entry was not explained on the journal entry form for two entries.
- There was no indication of approval for four of the entries.
- Journal voucher packages were not provided for eighteen of the entries.
- The purpose of the appropriation transfer was not explained for seventeen of the transfers.
- There was no indication of approval for fourteen of the transfers.
- The transaction amount for one appropriation transfer did not agree to the general ledger.

To ensure adequate controls over journal entries and transfers, supporting voucher packages should be maintained for each transaction including indication of approval and purpose.

We recommend that the Agency review its procedures for journal entries and transfers. Based on the review, we recommend that the Agency implement procedures to ensure that all journal entries and transfers are properly approved and are supported by appropriate support documentation.

GENERAL LEDGER AND SUBSIDIARY LEDGERS

We tested the Agency's subsidiary ledgers for the month of August 2010 and noted the following findings:

- Management was unable to provide one of subsidiary ledgers that we requested.
- One subsidiary ledger reflected a break in the sequential order of the transaction numbers.

In order to maintain adequate control over the Agency's general ledger activities, subsidiary ledgers should be adequately maintained and reconciled monthly. Also, sequential order of transaction numbers should be monitored and breaks should be sufficiently explained.

We recommend that the Agency review its procedures regarding the general ledger and subsidiary ledgers. Based on the review, we recommend that the Agency implement procedures to ensure that all subsidiary ledgers are available for examination and that they are reviewed to ensure sequential order of transaction numbers.

RECONCILIATIONS

We inspected the Agency's thirty-four subfund reconciliations prepared for the month of September 2009 and noted the following findings:

- Management was unable to provide one of the subfund reconciliations that we requested.
- Six of the reconciliations reflected reconciling items for which no explanation was documented.

All subfund reconciliations should be adequately maintained and reviewed in order to ensure sufficient controls over the reconciliation process. Also, explanations for reconciling items should be properly documented.

We recommend that the Agency review its procedures related to subfund reconciliations. Based on the review, we recommend that the Agency implement procedures to ensure that all reconciliations are available for examination and that the nature and purpose of reconciling items are sufficiently explained.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We inspected the schedule of federal financial assistance (SFFA) for the year ended June 30, 2010 and noted the following findings:

- The receipts column reflected a total of \$ 1,671,578. The corresponding general ledger balance reflected a total of \$1,516,023.
- The expenditures column reflected a total of \$ 689,210. The corresponding general ledger balance reflected a total of \$482,125.
- The Agency did not prepare the Report Distribution List for Entities From Which You Received Federal Financial Assistance for the year ended June 30, 2010.

We recommend that the Agency follow all the requirements reflected in the letter of instructions provided by the State Auditor. We also recommend that the Agency maintain documentation to demonstrate that the SFFA reconciles to the accounting records. Finally, the Agency should prepare a checklist to ensure all of these requirements are addressed and to ensure proper reporting of federal expenditures.

SCEIS IMPLEMENTATION

We attempted to compare the ending cash, revenue and expenditure balances as of October 31, 2009 as reflected on the Agency's legacy system to the corresponding beginning balances as of November 1, 2009 as reflected on SCEIS for all subfunds. Management could not provide the necessary STARS and SCEIS reports that would allow us to compare these balances.

We recommend that the Agency develop the ability to generate reports that compare cash, revenue and expenditure balances as of October 31, 2009 per the legacy system to the corresponding beginning balances as of November 1, 2009 per SCEIS.

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 Accountant's Comments section of the State Auditor's Report on the Agency for the fiscal year ended June 30, 2007, and dated May 1, 2008. We applied no procedures to the Agency's accounting records and internal controls for the years ended June 30, 2009 and 2008. We have repeated the findings related to the preparation of closing packages and reconciliations.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA SCHOOL FOR THE DEAF AND THE BLIND *Serving Individuals Who Are Deaf, Blind or Sensory Multidisabled*

June 14, 2011

Mr. Richard H. Gilbert Jr., CPA

Deputy State Auditor

Office of the State Auditor

1401 Main Street, Suite 1200 Columbia, South Carolina 29201

Dear Mr. Gilbert:

The South Carolina School for the Deaf and the Blind (SCSDB) has prepared the following response to the finding presented in the Agreed Upon Procedure Audit of financial records ending June 30, 2010. With this response, we have now completed our review and authorize release of the report.

1. Closing Packages Issues
2. Receipts, Journal Entries, Ledgers, Reconciliations, SFFA Schedule Issues

Corrective Action: We agree with the findings of the auditors engaged for this Agreed Upon Procedure Audit and will take corrective actions by reviewing procedures, and training staff as needed.

As this was a transitional year for the agency, moving from multiple legacy systems to SCEIS, it has not been without growing pains. Fortunately, many of the findings will be corrected simply by having SCEIS implemented, the remaining findings can be overcome by staff training.

We appreciate the professional attitude and conduct of your staff during the audit. If you have any questions regarding the corrective action described above, please contact me at 864-577-7544.


Jon Castro
CFO
SCSDB

SCSDB Accreditations

South Carolina State Department of Education (SDE) • Conference of Educational Administrators of Schools and Programs for the Deaf (CEASD)
Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS CASI)

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