

**SOUTH CAROLINA SCHOOL
FOR THE DEAF AND THE BLIND
SPARTANBURG, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 31, 2002

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

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina School for the Deaf and the Blind, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2001, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the School, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Purchase Card and Expenditure Payments by Fiscal Year in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; and comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, and all operating transfers, and all appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. Our finding as a result of these procedures is presented in General Ledger in the Accountant's Comments section of this report.

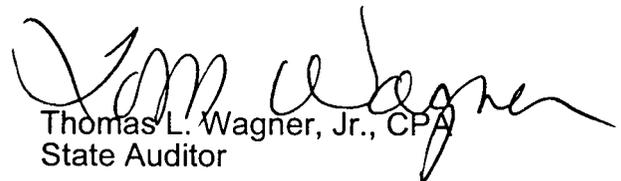
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5. We tested selected entries and monthly totals in the subsidiary records of the School to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in General Ledger in the Accountant's Comments section of this report.
6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 2001, and tested selected reconciliations of balances in the School's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we 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 reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the School's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2001. Our findings as a result of these procedures are presented in Payroll, Reconciliations, Purchase Card and Expenditure Payments by Fiscal Year in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payroll, Reconciliations, General Ledger, and Expenditure Payments by Fiscal Year in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the School and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the School and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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and
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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the School's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the 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.


Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

Calculations

Of the 75 payroll transactions tested, we found the School had made three payroll calculation errors which resulted in incorrect payments to employees. Two employees were underpaid a total of \$42 and one was overpaid \$29. (Similar findings were included in the eight prior State Auditor's Reports.)

These errors were caused by overtime not being paid properly, the wrong hourly rate used, and one department not properly reporting information to the accounting office. These and other types of errors could have been detected and corrected if the calculations had been independently reviewed before the payroll voucher was approved. Pay amounts are not subject to independent supervisory review including verification of the components [e.g., pay rate, unused annual leave balance, effective date of the pay or status change (such as hire, termination, promotion)] used in the computations.

Section 8-11-30 of the 1976 South Carolina Code of Laws states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees . . ." A strong internal control system includes independent reviews of pay calculations and independent verifications of pay rates, work hours, and all of the other factors in the computations to increase the probability that errors will be detected and corrected in a timely manner by employees in the normal course of performing their assigned duties as to ensure that payroll checks will be processed for the correct amounts.

Again we recommend that the School adhere to all State laws and regulations especially those pertaining to employee pay. The accounting department should develop and implement procedures which include the use of consistent pay calculations methods for like

situations. In addition, we continue to recommend that the School implement independent reviews of payroll calculations for mathematical accuracy and for verification with supporting documentation of all information used in those computations.

Alternative Pay Period

We also noted eight instances where the School was compensating employees using a pay period not corresponding to the State's Payroll Schedule. In these alternative pay periods there did not appear to be any consistency regarding the dates selected for the alternative periods used.

Proviso 72.24 of the part 1B of the 2001 Appropriation Act states, "In order to provide a regular and permanent schedule for payment of employees, it is hereby established that the payroll period shall begin on June 2, of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll shall continue thereafter on a twice-monthly schedule as established by the Budget and Control Board."

We recommend that the School develop and implement procedures to ensure timely payment of wages and compliance with State Law.

PURCHASE CARD

During our review of the School's procurement card purchases we noted several deficiencies. We found eleven instances where school personnel made unauthorized purchases which exceeded the \$500 limit for individual transactions. Of the 25 transactions randomly selected for review we noted that three of the transactions did not have receipts for the purchases attached to the Transaction Log. We also noted three instances of the 25 randomly selected transactions in which the School did not remit use tax for items purchased with the card where sales tax was not charged.

The School's procedures for using the State Purchase Card states, "Any purchase over \$500 must be approved by the Principle/Division Director . . . any expenditures over \$500 must receive prior approval from the Principal." The School's procedures also state that the user is responsible for maintaining a Purchase Card Transaction Log which must contain the following: sales receipt, packing slips, credit card slips, and other information related to the purchase. South Carolina Statutes Annotated Section 12-36-1310 imposes a use tax " . . . on use or other consumption in this State of tangible personal property at retail for storage, use or other consumption in this state at the rate of five percent of the sales price of the property.

We recommend that the School comply with all policies and procedures relating to the use of the Purchase Card whether they are enforced by the School or by the State. We also recommend that the School remit all sales/use tax as it its due.

RECONCILIATIONS

We tested the School's monthly reconciliations of cash, revenues, and expenditures to determine the accuracy, completeness, and timeliness of that process and reliability of that internal control. We chose to test April 2001 and final fiscal year 2001 reconciliations. The School failed to reconcile its expenditure accounts for April 2001. Regarding preparation of its final expenditures, revenues, and cash reconciliations for the fiscal year ended June 30, 2001 (FY 2001, FM13), we found the expenditure and cash reconciliations were not completed. Similar deficiencies were noted in the three prior State Auditor's reports, as follows: failure to timely perform account reconciliations; failure to perform all required reconciliations for each month-end; and failure to perform an independent supervisory review of each reconciliation and/or to document that review and approval.

(STARS Manual) explains about indirectly detectable errors, as follows:

Some errors are not directly detected by the system . . . The only way such errors can be detected is for agency accounting personnel to perform regular monthly reconciliations between their agency's accounting records and STARS balances shown to STARS reports. Such reconciliations provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper.

This guidance also states that monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the fund and object code level of detail; must be performed monthly shortly after month-end; must be signed and dated by the preparer; and must be independently reviewed and approved in writing by an appropriate supervisory employee.

We again recommend that the School's accounting department develop and implement procedures to ensure that all required reconciliations are performed timely and properly documented.

GENERAL LEDGER

The School's general ledger did not properly account for all fiscal year 2001 transactions. We found that the School did not record the following items to their general ledger: one journal entry, the only interagency appropriation transfer, and all ten operating transfers. We also were unable to trace 15 invoices from the School's Accounts Receivable Listing to the School's SABAR Period Outstanding Invoice Report. The School has not recorded its composite bank account (Non Appropriated Account) within its general ledger system. Accounting personnel told us that the School's original budget was recorded in the general ledger system, however, subsequent budget changes were not consistently recorded throughout the year. Also, we were unable to account for the numerical sequence of journal

entries and found one appropriation transfer that was not assigned a sequence number. Further, we noted that significant supporting documentation, including other journal entries and vouchers were missing.

We reported similar deficiencies in three prior State Auditor's reports regarding the failure to record all financial and budget transactions and the composite bank account and problems with the numerical sequences of certain document types.

Good business practices and a system of effective internal controls require maintenance of a general ledger and accounting system which includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision-making. Use of sequentially numbered document series and preparation and retention of adequate supporting documentation for all transactions are important elements of such a system. Furthermore, generally accepted accounting principles (GAAP) require transactions to be properly recorded for financial statement presentation.

We again recommend the School fully implement its general ledger system which includes all accounts and transactions with appropriate and adequate internal accounting controls.

EXPENDITURE PAYMENTS BY FISCAL YEAR

Section 3.12 of the GAAP Manual defines amounts payable as billings for goods or services received on or before June 30 which the agency pays for after June 30. The accounts payable closing package reported five disbursement vouchers for fiscal year 2001 expenditures (\$18,332) paid with fiscal year 2002 funds. The School's fiscal year 2001 expenditures were paid with funds authorized for another fiscal year's transactions. In addition, none of these expenditures were paid in a timely manner.

We reported a similar deficiency in prior State Auditor reports regarding the School's processing and payment of invoices.

Proviso 72.3 of Part IB of the 2001 Appropriation Act states, “Subject to the terms and conditions of this act, the sums of money set forth in this Part . . . are appropriated from the general fund of the state . . . and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2000–2001 . . .” Also, Section 11-35-45 of the South Carolina Code of Laws requires that all vouchers for payment of goods or services be delivered to the Comptroller General’s Office within 30 work days from acceptance of the goods or services and with a proper invoice. The South Carolina School for the Deaf and the Blind Purchasing Policies and Procedures require invoices to be received by the Accounts Payable Office and then attach a copy of a purchase order. Once the Accounts Payable Office receives a receiving document and all documents agree, payment is made.

In addition, we recommend the School adhere to and enforce its purchasing procedure to allow only accounts payable to receive invoices for payment which would increase the timely submission and payment of invoices.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (SFFA)

During our testing of the Schedule of Federal Financial Assistance, we were unable to agree figures on the SFFA to the School’s supporting documentation. According to accounting personnel, federal project information was not consistently recorded throughout the year. The School relied solely on Comptroller General Reports to complete the fiscal year 2001 SFFA.

Good business practices and strong internal controls require the proper maintenance of a general ledger system that provides complete and accurate information necessary for making financial decisions. Further, generally accepted accounting principles (GAAP) require transactions to be properly recorded for financial statement presentation.

We recommend the School maintain accurate records of all federal project information listed on the SFFA. The School should not rely solely on the CG’s reports to prepare the SFFA.

SECTION B – 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 School for the fiscal year ended June 30, 2000, and dated April 27, 2001. We determined that the School has taken adequate corrective action on the deficiency described in the Fixed Assets Closing Package and in the Payroll-Annual Leave Accrual Rates and Limits and Deferred Salaries. However, in Section A of the Accountant's Comments section of this report, we have repeated the deficiencies presented in the prior year comments titled General Ledger, Reconciliations, Payroll and Expenditure Payments by Fiscal Year.

MANAGEMENT'S RESPONSE

December 13, 2002

Thomas L Wagner, Jr., CPA

Dear Mr. Wagner:

We have review the draft report resulting from your application of agreed upon procedures to the accounting records of the South Carolina School for the Deaf and the Blind for the Fiscal Year ended June 30, 2001. We concur with your findings in areas with internal control weaknesses and would offer that the findings do not reflect any intentional wrongdoing, mismanagement or malfeasance. Our response to your findings and recommendations is as follows:

General Ledger . We concur that information flow through the General Ledger must be complete, accurate, timely and reliable. To those ends, we are engaged in an internal review of the work flow in the finance department in order to certify that our routines are recording and reporting agency transactions that are in compliance with GAAP and state law. Since State Audits lag work flow by 18 months, we recognize that our initiative will not have reporting impact until the Audit of FY 2003.

Fixed Assets Closing Package We are happy to report that there were no material weaknesses or rules violations associated in this year's audit for the fixed assets. We acknowledge and greatly appreciate the help given to us by Ed Vaughn, State Auditor (ret.) in this area.

Reconciliation We are now performing monthly reconciliation of revenues, expenditures and cash. FY 2003 audit will reflect a full year's worth of monthly reconciliations.

Expenditure Payments in Correct Fiscal Year We believe that updating our work routines with regard to general ledger transaction quality and reconciliation of revenue, expenses, and cash we will be able to correctly record and report transactions in the proper year.

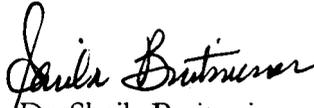
Purchase Cards Purchase Cards will disappear as an internal control weakness with next year's audit because we have greatly reduced the number of cards outstanding and limited the number and type of transaction for which they can be used. Look for the positive impact of our changes to beginning in the FY 2002 Audit.

Schedule of Federal Financial Assistance Reporting for Federal Financial Assistance will not be an audit issue in future years as internal control weaknesses will be cleared up as a result of our corrective routines to general ledger transactions.

Payroll Even though the number of errors in tested transactions has fallen from previous audits, we were still using manual routines that relied too heavily on manual collection of data for this audit. We are building databases that will make tracking and reconciling payroll data easier and should eliminate a material amount of errors.

In summary, we are investigating the possibility of converting our current accounting system to SAP enterprise software. We have been in contact with the CIO and are a member of the SAP user group. We have volunteered to be the pilot agency for the HR module. This conversion along with our internal review of procedures and work flow will make rapid improvement in our audits. If you have any questions or comment, please do not hesitate to call either Gary Cathcart or Jon Castro at 864-577-7536 or 7544.

Respectfully Submitted,


Dr. Sheila Breitweiser
President

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