

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

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

August 23, 2018

Dr. Page B. McCraw, President
and
Members of the Board
South Carolina School for the Deaf and the Blind
Spartanburg, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina School for the Deaf and the Blind (the School), on the systems, processes and behaviors related to financial activity of the School for the fiscal year ended June 30, 2017. The School's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the School. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the School has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use 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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed - Upon Procedures Related to the South Carolina School for the Deaf and the Blind (H75)

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations for the following: General Fund: G/L Account 4310081000; Earmarked Fund: G/L Accounts 4530190000, 4890060000 and 4536060000; and Federal Fund: G/L Account 4280020000.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged were properly authorized by law.
3. Randomly select fifteen cash receipts and inspect supporting documentation to determine that receipts were recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations for the following: General Fund: 517- accounts; Earmarked Fund: 503- and 507- accounts; Restricted Fund: 502- accounts; and Federal Fund: 503- and 507- accounts.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by School procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by School procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the School, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements were recorded in the proper fiscal year.

Cash Disbursements/Non-Payroll Expenditures (Continued)

Finding

Four disbursements selected for inspection were incorrectly coded in the South Carolina Enterprise Information System (SCEIS) general ledger as follows:

- A travel reimbursement for a state employee was charged to GL Account 5021430000 (Non-St Employee Travel)
- Storage container rental was charged to GL Account 5024990000 (Other Contract Services)
- A fixed maintenance agreement payment was charged to GL Account 5040050000 (Non-IT Contingent Rental Payments)
- Labor charges related to repairs were charged to GL Account 5031030000 (Maintenance Supplies, Parts, Paint)

Management's Response

SCSDB acknowledges these findings. Each finding will be reviewed with staff to ensure accuracy in the future.

Payroll

7. Randomly select twenty-five employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the School.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the School.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

8. Randomly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the School's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
9. Randomly select twenty-five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the School's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
10. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
11. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes greater than 10%.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

12. Randomly select fifteen journal entries and transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Appropriation Act

13. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
14. Confirm compliance with the selected agreed-upon School-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

Finding

Based on documentation provided, we were unable to confirm if a complete inventory of personal property was performed in fiscal year 2017.

Management's Response

We agree with this finding. SCSDB will implement a systematic inventory process to ensure compliance in conducting the annual inventory evaluation in the future.

Reporting Packages

15. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages and any required supplemental information were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
16. In addition to the procedure above, we performed the following:
- Cash and Investments Reporting Package
Determine if responses were reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or School prepared records. In addition, determine if amounts agreed to State Treasurer's Office Composite Bank Account reports and year end reconciliations.
 - Inventory Reporting Package
Determine if reported amounts agreed to the SCEIS Yearend Reporting - Inventory report. In addition, determine if the School's reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or School prepared records.
 - Capital Assets Reporting Package
Determine if responses and reported amounts were reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or School prepared records.

Reporting Packages (Continued)

- **Operating Leases Reporting Package**

Determine if amounts agreed to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or School prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Ten haphazardly selected contingent rental payments; (2) The effective dates, current expense and future minimum payments of all operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time Rental Payments and Other Adjustments).

- **Subsequent Events Questionnaire**

Determine if responses were reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or School prepared records.

Findings

Cash and Investments Reporting Package

The School reported the composite reservoir account balance instead of the petty cash fund balance on the Cash On Hand/Petty Cash Reporting Form (Form 3.01.1). The amount reported was overstated by \$76,364.

The School reported incorrect amounts for the Bank Statement, Reconciled, and Recorded composite account balances on the Deposits With Banks Reporting Form (Form 3.01.2). The Bank Statement amount was understated by \$79,355, the Reconciled amount was understated by \$363, and the Recorded amount was overstated by \$79,355.

Capital Assets Reporting Package

The School responded on the Capital Assets Questionnaire that its acquisitions plus transfers-in and retirements plus transfers-out equaled the debit and credit balances reflected in SCEIS, respectively. However, we observed an aggregate variance of \$350,551 between these balances which should have prompted the School to report this information on the 'Reconciliation of SCEIS Asset History Sheet to General Ledger Activity' form (Form 3.08.5).

The School responded on the Capital Assets Questionnaire that its outstanding construction commitments did not exceed \$100,000. However, based on discussion with School personnel during our fieldwork, the commitments did, in fact, exceed the established threshold. Therefore, the dollar value of the outstanding construction commitments should have been reported accordingly on the form.

Operating Leases Reporting Package

The School classified payments for fixed equipment rentals and maintenance agreements totaling \$18,551 as Contingent Rental Payments on the Operating Leases Summary Form - Lessor (Form 3.09.1). Based on the specific agreements, these payments should have been classified accordingly as other categories (Required Minimum Lease Payments for Operating Leases, Payments for Supplies and Other Billing Charges, or Other Adjustments).

Subsequent Events Questionnaire

The School did not complete and submit the Subsequent Events Questionnaire in fiscal year 2017.

Management's Response

SCSDB acknowledges and agrees to these findings. Corrective action will occur for each identified item to ensure accurate reporting in the future.

Composite Reservoir Account

17. Obtain a listing of the School's composite reservoir accounts and confirm with School management that the listing is complete.
18. Obtain fiscal year monthly reconciliations for the composite reservoir account and for two haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
19. Inspect ten haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
20. Inspect ten haphazardly selected composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Finding

For the two haphazardly selected reconciliations, the School reconciled the bank balance to the book balance as of the date the reconciliation was prepared instead of the month-end book balance. As a result, reconciling items applicable to subsequent months were included on the reconciliations.

Management's Response

SCSDB acknowledges this finding and will ensure that monthly reconciliations are prepared to align with the month-end book balance in the future.

Capital Assets

21. Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine the asset purchase was properly capitalized and posted to the general ledger as to amount and account, assigned the proper useful life in accordance with State policy and complied with applicable State laws and contracts.
22. Inspect supporting documentation associated with all (two) capital asset retirements to determine the asset was originally recorded in the proper asset class and properly removed from the School's books and the disposal was properly approved.

Findings

Two selected capital asset acquisitions were capitalized for the incorrect amount due to the exclusion of component, shipping, and installation charges. The assets were understated by \$2,250 and \$2,066 in the SCEIS asset system.

Prior to disposal, the two capital asset retirements inspected were recorded in the incorrect asset class. These disposals of vehicles totaling \$30,057 were classified as office equipment.

Capital Assets (Continued)

Management's Response

SCSDB acknowledges these two findings. Capitalization will now include component, shipping, and installation charges. This matter will be reviewed with staff to insure this type of issue does not occur moving forward.

The South Carolina School for the Deaf and the Blind Foundation

23. Obtain and inspect applicable contractual agreements to determine if individuals employed by both the School and the Foundation were compensated in accordance with the agreements.

We found no exceptions as a result of these procedures.

Procurement Card Transactions

24. Haphazardly select five procurement card purchases and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is reasonable based on the cardholder's position.
 - The monthly purchase statement was submitted along with applicable receipts and signed by both the cardholder and supervisor.
 - The transaction did not exceed the single transaction limit or the individual credit card limit.

Finding

Receipts were not submitted by the cardholder or reviewed by the supervisor prior to payment for all five purchases inspected. Also, we observed four of the monthly purchase statements were not signed by the cardholder and/or supervisor. Additionally, the School located itemized receipts for three of the purchases and we determined these purchases were reasonable; however, we were unable to confirm the remainder of the purchases were reasonable.

Management's Response

SCSDB agrees with this finding. In the future, all receipts will be signed by the cardholder and/or supervisor. Such receipts will be maintained with monthly statements and compared to insure purchases are reasonable.

Fiscal Monitoring of Schools

25. Inquire of management regarding any investigation, audit or review associated with the School which was ongoing or completed during the fiscal year. Inspect reports of any completed investigation, audit or review associated with the School.
26. Compare current year trial balance account balances, excluding revenues and expenditures, to those of the prior year. Obtain and document an understanding of variations over \$500,000 and 10%.
27. Inspect budget allocations for the previous five years to determine consistent budgeting to support the School.
28. Compare total revenues to total expenditures for the current year and each of the previous four fiscal years and obtain an explanation from management for any year in which the School's expenditures exceeded revenues.

Fiscal Monitoring of Schools (Continued)

29. Through inquiry with management, determine and document the School's reserves/funding to maintain school operations if an emergency or budget shortfall should occur.

We found no exceptions as a result of these procedures.

Information Technology Procurement

30. Inspect certain fiscal year 2018 expenditures related to the purchase of information technology products/services to determine if the purchases complied with applicable State laws, regulations, and contracts, agree to relevant supporting documentation, and were properly capitalized, if applicable.

Findings

The purchase of an asset totaling \$6,965 was improperly expensed by the School. Since the cost of this asset exceeded the State's capitalization threshold of \$5,000, it should have been capitalized accordingly.

We inspected two transactions for the purchase of capital assets and determined thirty-one assets were capitalized incorrectly due to the exclusion of shipping and installation charges from the capitalized amount. Each asset was understated by \$737.50, an aggregate total of \$22,863, in the SCEIS asset system.

We also inspected two transactions for the purchase of low value assets (LVA) and determined various capitalization errors were made. Five LVA were capitalized incorrectly due to the exclusion of license fees from the capitalized amount. Each LVA was understated by \$685, a total understatement of \$3,425. Another thirteen LVA were capitalized incorrectly due to the exclusion of all necessary component, shipping and installation costs. Each LVA was understated by \$1,064, a total understatement of \$13,832. Additionally, three LVA were expensed instead of being capitalized. Each asset should have been capitalized at \$2,779, a total of \$8,337. As a result of these capitalization errors, low value assets were understated by an aggregate total of \$25,594 in the SCEIS asset system.

Two expenditures selected for inspection were incorrectly coded in the SCEIS general ledger. One expenditure for \$6,281 of data processing supplies was coded to GL Account 5020050000 (Photographic & Audiovisual Services) instead of to a 503-GL account. In addition, \$440 of shipping charges associated with both expenditures were coded separately to GL Account 5020080000 (Freight Express Delivery) instead of being coded to the same account as the supplies.

Management's Response

SCSDB acknowledges and agrees with these findings. The first item listed has now been capitalized. Each other item listed will be reviewed with staff to insure accuracy in the future.

Minutes

31. Inspect the Board's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

32. Through inquiry and inspection, determine if the School has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of these procedures.