

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

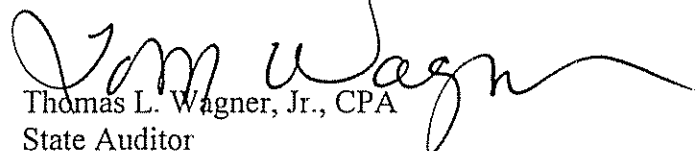
July 26, 2005

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, 2004, 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,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

South Carolina School for the Deaf and Blind

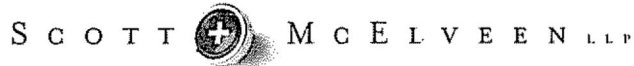
Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2004*

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## Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA  
 State Auditor  
 State of South Carolina  
 Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the accounting records of the South Carolina School for the Deaf and Blind (the "Agency") for the fiscal year ended June 30, 2004, 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 users of the State Auditor. 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 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 to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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

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Member: AICPA, SCACPA, SEC Practice Section  
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1441 Main Street, Suite 800 TEL (803) 256-6021  
 Post Office Box 8388 FAX (803) 256-8346  
 Columbia, South Carolina 29202 www.scottmcelveen.com

## **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, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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.
- 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 were chosen randomly. We found no exceptions as a result of the procedures.

## **3. Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded 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 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 compared current year recorded payroll expenditures to those of the prior year; 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Sections A and B in the Accountants' Comments sections of this report.

#### **4. Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Section B in the Accountants' 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

#### **6. Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Agency's accounting record 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 determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amount 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.

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

## **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel, and observation of agency personnel performing their assigned duties, the Agency'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 2004.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

## **8. Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, 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; if the amounts were reasonable; and if they agreed with the supporting work papers and accounting records.

We found no exceptions as a result of the procedures.

## **9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, prepared by the Agency and submitted 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 were reasonable; and if they agreed with the supporting work papers and accounting records.

We found no exceptions as a result of the procedures.

## **10. Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from their engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2001.

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

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the Board of Trustees, 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  
June 2, 2005



## **SECTION A – MATERIAL WEAKNESS AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

The procedures agreed to 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 internal controls. A material weakness is a condition in which the design or operation of one 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 and the first comment is considered a violation of State Laws, Rules, or Regulations, but is not considered to be a material weakness.

### **Reconciliations**

Our testing of monthly reconciliations for cash, receipts, and disbursements revealed that the reconciliations from fiscal month 4 through fiscal month 13 were not consistently signed off by both the preparer and reviewer.

The preparer should be responsible for correcting errors detected by the reviewer. If the reviewer returns the reconciliations to the preparer after review, the preparer can ensure that all reconciliations have been reviewed and proper notations have been made to that effect. We recommend that additional care be taken to ensure that all monthly reconciliations are dated and signed by both a preparer and reviewer.

### **Payroll Vouchers**

For the payroll periods tested, the total payroll voucher for each period did not match the corresponding state comptroller general's payroll register or the agency transaction register.

We recommend that Agency payroll vouchers be reconciled to the State Comptroller General's records on a timely basis.

## **SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

The conditions described in this section have been identified as weaknesses subject to correction or improvement, but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

### **Recording of General Ledger Expenses**

In performing analytical procedures of receipts and expenditures we observed that there were numerous reclassifications between individual accounts within General Expenditures. The reclassifications were due to the accounting staff recording all the transactions into an Overhead Account during the fiscal year and then reclassifying the same expenditures into the proper accounts at year end.

We recommend that the Agency avoid this type of recording procedure, as monthly reports would not reflect the actual activity within the Agency, and would increase the possibility of the Agency misstating accounts at year-end.

### **Approval of Journal Entries and Transfers Between Sub-Funds**

During our testing of journal entries, 24 out of the 25 entries tested did not have evidence of approval prior to posting to the computer system. There was also no approval or documentation for all 5 of the transfers between sub-funds that we tested.

We recommend that the Agency establish procedures to ensure that a reviewer approves and documents approval on all journal entries and transfers between sub-funds prior to posting.

### **Payroll Disbursements and Expenditures**

Our examination of personnel files disclosed that 5 out of the 25 personnel files tested did not contain employee withholding documentation. We also noted that for 2 out of the 5 terminated employees tested, the proper termination documentation was not included in the file.

Good internal controls require that employees' personnel files contain signed documentation by employees supporting all voluntary payroll withholdings. There should also be the proper documentation noted in an employee personnel file for employee terminations.

We recommend that the Agency review all personnel files to ensure that the files contain signed documentation by the employee showing authorization for all voluntary payroll withholdings. In addition, the Agency should also review the personnel file for terminated employees to ensure that there is proper documentation of the termination.

### **SECTION C – STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of the corrective action taken on the findings reported in the Accountant's Comments Section of the State Auditor's Report on applying agreed upon procedures for the fiscal year June 30, 2001, and dated July 31, 2002. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2001. We determined that the Agency has taken adequate corrective action on each of the findings except as noted above in Sections A and B.

**To:** Mr. Thomas L. Wagner, Jr., CPA  
State Auditor, State of South Carolina

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

**Date:** 7/27/2005

**Re:** Management's Response to Applying Agreed Upon Procedures

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Enclosed is the South Carolina School for the Deaf, Blind and Multihandicapped Management's Response to Applying Agreed Upon Procedures for fiscal year 2003-2004.

If you have any additional questions, please contact me at (864) 577-7544.

## **SECTION A – MATERIAL WEAKNESS AND/OR VIOLATIONS OF STATE LAW, RULES, OR REGULATIONS**

Item #1 Reconciliation (pg 6) Monthly reconciliations from fiscal month 4 through fiscal month 13 were not consistently signed off by the preparer and reviewer.

*Acknowledged. Primarily due to turnover, reassignment, and training. During this period of time the budget analyst, CFO, and payroll accountant positions became vacant. Those positions were not filled during the review year and those duties were assumed by the fiscal analyst/interim CFO, senior accountant and a human resources staff member (temporarily assuming payroll duties along with her HR duties).*

*The fiscal analyst/interim CFO, senior accountant and an administrative assistant, worked and trained on many tasks together, including reconciliations. Reconciliations were completed but clearly established preparer and reviewer roles had not yet been established.*

*Beginning in FY 2004/2005, the Assistant CFO and payroll accountant positions have been filled. These duties have been assigned, training implemented, and the required signoffs by preparer and reviewer are being administered.*

Item #2 Payroll Vouchers (pg 6) Total payroll voucher for each period did not match the corresponding state comptroller general's payroll register or the agency transaction register.

*Acknowledged. Primarily due to turnover, reassignment, and training. Human resources personnel temporarily assumed payroll duties. Since she had no formal training, the list of tasks left by departing payroll accountant failed to include the need to reconcile agency payroll records with State Comptroller General's records on a monthly basis.*

*Beginning in FY 2004/2005, with Assistant CFO and payroll accountant positions filled, these duties have been assigned, training implemented, and as a result, timely reconciliations have been done.*

**SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS.**

Item # 3 Recording of General Ledger Expenses(pg 7)

*Acknowledged. Processes performed by previous budget analyst. Beginning in FY 2004/2005, transactions are being recorded and classified correctly.*

Item # 4 Approval of Journal Entries and Transfers Between Sub –Funds(pg 7)

*The senior accountant and an administrative assistant (who was being groomed for some budget processes), worked and trained on many tasks together, including journal entries and fund transfers. Journal Entries and Transfers were completed and informally reviewed but sign off inconsistent.*

*Beginning in FY 2004/2005, sign off documentation is being completed consistently.*

Item # 5 Payroll Disbursements and Expenditures(pg 7)

*Note: This response is being made as a substitution response for the Human Resource Director who is currently out on maternity leave*

*Noted. Payroll and Personnel tasks are handled by the Finance Department and the Human Resource Department respectively. Human Resource and Finance are distinct and parallel departments with separate reporting and compliance obligations. As a result, parallel files are kept on employees to track payroll issues, insurance/benefit issues, and OHR requirements. Withholding documentation, and termination reports missing from the Personnel Files are either being used for a status update processing or are filed in a parallel file within Human Resources or Finance*

*Currently, we are undergoing a software conversion to Kronos Timekeeper (an electronic timekeeping system) and will no longer need to keep duplicate, parallel, files in Human Resources or Finance. Personnel files will be kept in Human Resources with updates made electronically to the payroll program. The addition of a payroll accountant who is familiar with electronic timekeeping has helped with this process.*

**SECTION C – STATUS OF PRIOR FINDINGS**

*Acknowledge that current engagement reviewed status of corrective action taken on the findings reported in the Accountant's Comments Section of the State Auditor's Report for fiscal year June 30, 2001 and determined that the Agency has taken adequate corrective action on each of the findings except as noted above in Sections A and B.*