

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

SPARTANBURG, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2012

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 28, 2013

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, 2012, 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 28, 2013

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, 2012, 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 made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current fiscal year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior fiscal 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 (\$191,000 – earmarked fund, \$110,000 – restricted fund, and \$19,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cutoff 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 current fiscal year expenditures at the subfund and account level to those of the prior fiscal 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 (\$217,000 – general fund, \$144,000 – earmarked fund, \$103,000 – restricted fund, and \$20,000 – federal fund) and ± 10 percent.

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

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 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 current fiscal year payroll expenditures at the subfund and account level to those of the prior fiscal 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 (\$217,000 – general fund, \$144,000 – earmarked fund, \$103,000 – restricted fund, and \$20,000 – 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. Our findings as a result of these procedures are presented in Expenditure Variances in the Accountant's Comments section 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, 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. We found no exceptions as a result of these procedures.

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

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the fiscal year ended June 30, 2012, and inspected selected reconciliations of balances in the Agency's accounting records to those reflected on the State Treasurer's Office monthly 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 State Treasurer's Office monthly 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.

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 made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We obtained all monthly reconciliations prepared by the Agency.

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.

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. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2012, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

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

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the fiscal year ended June 30, 2012, 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 workpapers and accounting records.

We found no exceptions as a result of these procedures.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina
June 28, 2013

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency resulting from our engagement for the fiscal year ended June 30, 2010, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011.

Our findings as a result of these procedures are presented in Reporting Packages and Reconciliations 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 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, the 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.



Columbia, South Carolina
June 28, 2013

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.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "each Agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting 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 reporting packages disclosed the following exceptions:

1. The "Grant Activity Form" omitted the grant activity fund number.
2. Recorded amounts reflected on the "Grant Activity Form" lacked supporting documentation.
3. The "Accounts Receivable Summary Form" omitted descriptions of the revenue account that was used in balancing entries.
4. Recorded amounts reflected on the "Accounts Receivable Summary Form" lacked supporting documentation.
5. The Agency did not disclose the following information on the "Commodities Inventory Summary Form": (a) date of physical inventory, (b) name of inventory software, (c) inventory valuation method, (d) type of inventory system, and (e) the fund number for which the commodities inventory was coded to.
6. The "Prepaid Expense Summary Manual Input Form" was submitted to the Comptroller General's Office 12 days after the due date (Repeat Finding).
7. The "Prepaid Expense Analysis Manual Input Form" omitted the expiration date of the benefits.

REPORTING PACKAGES, (CONTINUED)

The Agency does not have procedures in place to ensure that all reporting packages include all required information as reflected in the Comptroller General's Reporting Policies and Procedures Manual and that all amounts reflected on the reporting packages are supported by workpapers. Reporting packages that are not fully completed and/or lack supporting workpapers heightens the risk that the information provided therein is incorrect. It is important for the Agency to submit all required information to the Comptroller General's Office in a timely manner so that the Statewide Comprehensive Annual Financial Report reflects accurate financial data related to the Agency.

We recommend that the Agency develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual and that all reporting packages are supported by workpapers. We also recommend that the Agency make appropriate adjustments to future reporting 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.

CUTOFF

In accordance with generally accepted accounting principles, revenue should be recorded and posted to the general ledger when it is earned. The earnings process becomes complete when a service is provided. We selected a random sample of ten cash receipts (five recorded before June 30, 2012 and five recorded after June 30, 2012) for cutoff accuracy and noted the following exceptions:

1. Revenue related to three cash receipts for \$109,357 was recorded on the general ledger during fiscal year 2013 when all the supporting invoices indicated that the services were provided during fiscal year 2012. The revenue recorded from these transactions was improperly excluded from the Agency's general ledger for the fiscal year ended June 30, 2012.
2. One cash receipt for \$7,886 included three supporting invoices. Two of these invoices totaling \$3,585 indicated that the services were provided during fiscal year 2012. However, the revenue related to these two invoices was improperly excluded from the Agency's general ledger for the fiscal year ended June 30, 2012.
3. One cash receipt for \$2,418 included seven supporting invoices. Four of these invoices totaling \$1,873 indicated that the services were provided during fiscal year 2012. However, the revenue related to these four invoices was improperly excluded from the Agency's general ledger for the fiscal year ended June 30, 2012.

The Agency does not have procedures in place for reviewing its cash receipts transactions recorded near year-end to determine which accounting period the associated revenue relate to. It posts the revenue to the general ledger upon posting the cash receipt. As a result of these findings, revenue as reported by the Agency for the fiscal year ended June 30, 2012 was understated by \$114,815. To prevent revenues from being misstated, we recommend that the Agency implement procedures for reviewing its cash receipts transactions recorded near year-end to ensure each is supported by documentation and that the associated revenue is recorded on the general ledger during the period for which it is earned.

EXPENDITURE VARIANCES

Management is responsible for understanding the nature of the activity that takes place within the Agency's accounts reflected on its general ledger.

Non-Payroll:

We compared current fiscal year expenditures at the account level to those of the prior fiscal year within the Agency's general, earmarked, restricted and federal funds and identified variances that met or exceeded the agreed upon materiality levels reflected in Procedure (2) of this report. For each identified variance, we requested management to provide an explanation to support the account activity that occurred during the current fiscal year. Management did not provide explanations for the following account variances within the Agency's general fund:

1. Account 5021330000 (contractual agreements with government and non-profit entities) increased by \$311,602.
2. Account 5021540000 (other professional services) increased by \$219,718.

Payroll:

We compared the relationship of the Agency's salaries to its fringes at the subfund level for its general, earmarked, restricted and federal funds as follows:

1. We calculated the percentage change in salaries and percentage change in fringes from the prior fiscal year and compared the percentage change in salaries to the percentage change in fringes.
2. We calculated the percentage distribution of the Agency's salaries and fringes to total salaries and fringes and compared these percentage distributions to the prior fiscal year.
3. We compared the percentage distribution of the Agency's salaries to the percentage distribution of its fringes for the current fiscal year.

EXPENDITURE VARIANCES, CONTINUED

Payroll, Continued:

We then requested management to provide explanations for variances that met or exceeded five percent. The following variances met this threshold:

1. General fund salaries and fringes increased and decreased from the prior fiscal year by 21.07% and 16.60%, respectively, for a total variance of 37.67%.
2. Earmarked fund salaries and fringes decreased from the prior fiscal year by 39.10% and 2.12%, respectively, for a total variance of 36.98%.
3. Federal fund salaries and fringes decreased and increased from the prior fiscal year by 40.69% and 228.60%, respectively, for a total variance of 269.29%.
4. The percentage distribution of general fund salaries to total salaries increased from the prior fiscal year by 9.89%.
5. The percentage distribution of earmarked fund salaries to total salaries decreased from the prior fiscal year by 8.82%.
6. The percentage distribution of general fund fringes to total fringes decreased from the prior fiscal year by 5.87%.
7. For the current fiscal year, the percentage distribution of general fund salaries to total salaries was 6.79% greater than the percentage distribution of general fund fringes to total fringes.
8. For the current fiscal year, the percentage distribution of earmarked fund fringes to total fringes was 7.03% greater than the percentage distribution of earmarked fund salaries to total salaries.

Management did not provide explanations for any of the variances noted above. Consistent review of variance reports by management will help ensure accurate account classification. It will also assist in identifying potential improper or unauthorized expenditure transactions. We recommend that management monitor variance reports throughout the fiscal year and be able to readily explain significant variances based on expectations derived from budget practices and prior fiscal year events and conditions.

RECONCILIATIONS

The balances reflected on the Agency's bank reconciliations should reconcile with the State Treasurer's Office monthly reports. Furthermore, disbursements issued from the Agency's composite reservoir account should be supported by an approved payment request that explains the purpose and nature of the transaction. We selected a sample of two bank reconciliations (December 2011 and June 2012) to determine if they were properly reconciled and agreed to the supporting accounting records. We also selected a random sample of twenty-five cash disbursements issued from the composite reservoir account. Based on the procedures performed, we noted the following exceptions:

1. The amount listed as the "balance per bank" on both reconciliations did not agree to the State Treasurer's Office monthly reports by \$200. This reconciling item was not included or explained on either reconciliation (Repeat Finding).
2. The Agency was unable to provide an approved payment request for three cash disbursements that totaled \$2,637.

The Agency does not have procedures in place for which its monthly bank reconciliations are reviewed by someone independent from the preparer along with making sure that reconciling items, if any, are documented and adequately explained. Furthermore, the Agency does not have procedures in place to ensure that all cash disbursements issued from its composite reservoir account are supported by an approved payment request that explains the purpose and nature of the transaction. When bank accounts are not reconciled and cash disbursements are not supported by an approved payment request, the risk that cash is misappropriated is heightened.

RECONCILIATIONS, (CONTINUED)

We recommend that the Agency implement procedures to ensure its monthly bank reconciliations are reviewed by someone independent from the preparer. The independent review should ensure that the accounts properly reconcile to the State Treasurer's Office monthly reports and that all reconciling items are adequately explained, supported by documentation, signed and dated. We also recommend that the Agency require an approved payment request before a cash disbursement can be issued from its composite reservoir account. These procedures will help ensure that the cash disbursements issued from this account are properly authorized.

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 Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency for the fiscal year ended June 30, 2010, and dated June 10, 2011. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011. Based on our current fiscal year procedures, we noted certain recurring findings compared to fiscal year 2010. We have identified these repeat findings in the respective sections of this report.

MANAGEMENT'S RESPONSE



May 27, 2013
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, 2012. With this response, we have now completed our review and authorize release of the report.

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.

We appreciate the professional attitude and conduct of Elliot Davis & Co. during the audit. If you have any questions regarding this engagement, please contact me.

Sincerely,

Jon Castro, CPA
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