

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 1997**

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

April 27, 1998

The Honorable David M. Beasley, 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 the South Carolina School for the Deaf and the Blind (the School), solely to assist you in evaluating the performance of the South Carolina School for the Deaf and the Blind for the fiscal year ended June 30, 1997, 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; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 5.2 percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
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 accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 16.9 percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

The Honorable David M. Beasley, Governor  
and  
Members of the Board of Commissioners  
South Carolina School for the Deaf and the Blind  
April 27, 1998

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded payroll disbursements. Our finding 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 operating transfers and all recorded appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The journal entries and operating transfers selected for testing were chosen randomly. The totals of the selected journal entries and operating transfers were 5.7 percent and 12.5 percent, respectively, of the aggregate amounts of all such recorded transactions. We found no exceptions as a result of the procedures.
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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 1997, and tested selected reconciliations of balances in the School's accounting records to those in the State's accounting system (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 that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the School's accounting records or 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.

The Honorable David M. Beasley, Governor  
and  
Members of the Board of Commissioners  
South Carolina School for the Deaf and the Blind  
April 27, 1998

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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Auditor's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 1995, to determine if adequate corrective action has been taken. [We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1996.] Our findings as a result of these procedures are presented in Payroll and GAAP Closing Packages in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the School and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the School. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the School and submitted to the State Comptroller General and 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. Our finding as a result of these procedures is presented in GAAP Closing Packages in the Accountant's Comments section of this report.

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 and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through ten of this report. Accordingly, we do not express such an opinion. 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 use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA  
State Auditor

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

Schedule of Expenditures -  
 Budget and Actual - Budgetary General Fund  
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$ 7,283,795	\$ 7,278,380	\$ 5,415
Employer Contributions	1,885,809	1,883,845	1,964
Other Operating	1,460,981	1,460,943	38
Permanent Improvements	-	-	-
Case Services	-	-	-
Aid to State Agencies	3,273	3,273	-
<i>Special Items:</i>			
South Carolina Association for the Deaf	123,007	123,007	-
Deaf Preschool	528,628	528,628	-
Rock Hill Outreach Service Center	44,000	44,000	-
Training and Staff Development	128,150	16,950	111,200
Facility and Equipment Upgrade	-	-	-
Maintenance and Equipment	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Total Expenditures</b>	 <u>\$11,457,643</u>	 <u>\$11,339,026</u>	 <u>\$118,617</u>

The accompanying notes are an integral part of this schedule.

**SOUTH CAROLINA SCHOOL FOR THE DEAF AND THE BLIND**  
 Schedule of Expenditures -  
 Budget and Actual - Other Budgeted Funds  
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$4,489,936	\$3,881,194	\$608,742
Employer Contributions	1,192,946	1,066,250	126,696
Other Operating	3,064,458	2,879,697	184,761
Permanent Improvements	195,437	192,571	2,866
Case Services	5,350	5,315	35
Aid to State Agencies	-	-	-
<i>Special Items:</i>			
South Carolina Association for the Deaf	-	-	
Deaf Preschool	100,000	100,000	-
Rock Hill Outreach Service Center	-	-	-
Training and Staff Development	-	-	-
Facility and Equipment Upgrade	350,000	278,430	71,570
Maintenance and Equipment	<u>54,365</u>	<u>54,365</u>	<u>-</u>
<b>Total Expenditures</b>	<u>\$9,452,492</u>	<u>\$8,457,822</u>	<u>\$994,670</u>

The accompanying notes are an integral part of this schedule.

**SOUTH CAROLINA SCHOOL FOR THE DEAF AND THE BLIND**  
Schedule of Expenditures -  
Budget and Actual - Total Budgeted Funds  
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$11,773,731	\$11,159,574	\$ 614,157
Employer Contributions	3,078,755	2,950,095	128,660
Other Operating	4,525,439	4,340,640	184,799
Permanent Improvements	195,437	192,571	2,866
Case Services	5,350	5,315	35
Aid to State Agencies	3,273	3,273	-
<i>Special Items:</i>			
South Carolina Association for the Deaf	123,007	123,007	-
Deaf Preschool	628,628	628,628	-
Rock Hill Outreach Service Center	44,000	44,000	-
Training and Staff Development	128,150	16,950	111,200
Facility and Equipment Upgrade	350,000	278,430	71,570
Maintenance and Equipment	<u>54,365</u>	<u>54,365</u>	<u>-</u>
<b>Total Expenditures</b>	<u>\$20,910,135</u>	<u>\$19,796,848</u>	<u>\$1,113,287</u>

The accompanying notes are an integral part of this schedule.



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

## **Notes to Schedules**

June 30, 1997

### **NOTE 1 - BUDGET POLICY**

The South Carolina School for the Deaf and the Blind (the School) is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the School. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

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

## **Notes to Schedules**

June 30, 1997

### **NOTE 2 - STATE APPROPRIATIONS**

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the School's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$11,077,125
State Budget and Control Board Allocations for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	189,004
Supplemental Appropriations:	
Rock Hill Outreach Service Center	44,000
Training and Staff Development	<u>128,150</u>
Revised Appropriation - Legal Basis	11,438,279
Plus: 1996 Appropriation Brought Forward (1997 Proviso 72.44.)	<u>19,364</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$11,457,643</u>

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the South Carolina School for the Deaf and the Blind carried forward \$7,417 of unspent State General Fund appropriations from the current year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

Part V of the 1997 Appropriation Act authorized supplemental appropriations from surplus State General Fund revenues to the School of \$44,000 and \$128,150. The legislation also provides for unexpended funds to be carried forward to succeeding fiscal years and spent for the same specified purposes. Pursuant thereto, the School carried forward \$111,200 for training and staff development.

Proviso 72.71. of the 1996 Appropriation Act authorized the School \$600,000 for maintenance and equipment. The School reports transactions related to this funding in the other budgeted funds category on Schedule 2. The School carried forward \$54,365 of unexpended funds to fiscal year 1997 pursuant to Proviso 73.1. of the 1996 Appropriation Act.

In addition, a June 1996 Joint Resolution (Act 464) appropriated \$350,000 from the Capital Reserve Fund to the School for facility and equipment upgrade. The School reports transactions related to this funding in the other budgeted funds category on Schedule 2. The School carried forward \$71,570 of unexpended funds from this appropriation to fiscal year 1998 pursuant to Proviso 73.1. of the 1997 Appropriation Act.

**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 an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

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

## **RECONCILIATIONS**

In April 1998 during our current engagement at the School, we requested the monthly reconciliations for January 1997. Accounting personnel informed us that reconciliations had not been completed for that month, as well as for some other months. Although we were able to test year-end reconciliations for cash, revenue, and disbursements, we noted from the preparation dates on the reconciliations that the School had only recently completed them.

Accounting personnel stated that the 1997 reconciliations had not been completed timely because the School lacked sufficient staff to perform all accounting duties. The School has recently hired additional accounting staff.

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) explains that the only way certain errors in the agency's accounting records and/or in the State's accounting system (STARS) can be detected is for "agency accounting personnel to perform regular monthly reconciliations." The guidance goes on to say that such reconciliations must be performed at least monthly on a timely basis (i.e., shortly after month-end).

Preparing reconciliations in a timely manner will increase the probability of timely detection and correction of errors. We recommend that the accounting department develop and implement procedures to ensure that reconciliations are performed timely and in the manner as required.

## **PAYROLL**

When testing payroll transactions, we found the School had made numerous payroll calculation errors. The errors resulted in both overpayments and underpayments to employees. All of the errors were immaterial amounts. Each was related to calculations of pay for payroll periods, special pay, or termination pay. [As noted in our 1995 Termination Pay comment, similar findings were included in the State Auditor's Reports on the School for fiscal years 1992, 1993, 1994, and 1995. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1996.]

The accounting department follows no consistent method to calculate amounts for partial payroll periods and of termination pay. Some of the methods used are percentages of days worked in the pay period, hours worked in the pay period, and days not worked in the period. The accounting department is equally inconsistent in the methods used to calculate annual leave pay calculations. Other errors occur because the calculations of special pay amounts (e.g., overtime and special pay) are not subject to independent verification.

The Comptroller General's preferred method for calculating pay for partial payroll periods uses the ratio of actual days worked to total work days in the period. 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 . . ." Independent reviews of pay calculations and independent verifications of pay rates, work hours, termination dates, leave balances, etc. increase the probability that errors will be detected and corrected in a timely manner and that payroll checks will be processed for the proper amounts.

We continue to recommend that the School adhere to all State laws and regulations including those covering employee pay. The accounting department should develop and implement procedures to ensure that a consistent method is used to calculate each type of nonroutine pay including partial periods, special pay, and termination pay. In addition,

procedures should be implemented to ensure that payroll calculations are independently checked for mathematical accuracy and information in those computations is independently verified with supporting documentation.

## **SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL**

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.



## **GAAP CLOSING PACKAGES**

### **Introduction**

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information for the State's financial statements from agency-prepared closing packages. We determined the School submitted to the Office of the Comptroller General several incorrectly prepared and/or misstated closing packages. [The State Auditor's Report on the School for fiscal year 1995 also included findings of errors on the compensated absences and operating lease closing packages. We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1996.]

In order to accurately report the School's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that the agency head and finance director are responsible for submitting closing packages that are "•Accurate and completed in accordance with instructions. •Complete. •Timely. . . . The person signing a closing package form's 'approved' line must be someone different from the person who prepared the form." In addition, as discussed in Section 1.9 of the GAAP Manual, preparation and maintenance of working papers supporting each entry on each closing package form are also primary responsibilities of each agency.

The following summarizes the errors we noted on various 1997 closing packages:

### **Accounts Payable Closing Package**

Section 3.12 of the GAAP Manual requires agencies to report payables related to permanent improvement projects on the permanent improvements accounts payable form. However, the School reported a permanent improvements payable on its governmental or expendable trust fund accounts payable form.

### Operating Lease Closing Package

The operating lease closing package had several errors and omissions. In addition to providing guidance on preparation of operating lease closing packages, Section 3.19 of the GAAP Manual explains that the State Treasurer requires agencies to complete a lease register at the beginning of the lease which will help ensure that each is properly classified as a capital or an operating lease. We found that the preparer had not made such evaluations of classification for any of the leases reported in the closing package. We determined that the final payment date reported on one lease register and the lease payment amounts reported on two lease registers differed from the information in the applicable lease agreements. In addition, accounting personnel were unable to provide documentation to support information reported on some lease registers, including lease agreements for two of its four postage meters. Furthermore, only three of the four postage meters leases were included in the closing package and the information for only one of the three leases was correctly reported.

### Operating Lease Lessor Closing Package

The School leases certain real property under an operating lease to a non-State party. Section 3.20 of the GAAP Manual contains instructions for the preparation of the operating lease-lessor closing package for such transactions.

Land and building values reported in this closing package differ from those in the agency's accounting records and, in turn, the amounts in the accounting records do not agree with the acquisition cost in the supporting documentation (title of real estate). Accounting personnel could not explain the following differences:

	<u>Closing Package</u>	<u>General Ledger</u>	<u>Title</u>
Land	\$ -	\$ 1,680	
Building	<u>30,000</u>	<u>30,000</u>	_____
Property Value	<u>\$30,000</u>	<u>\$31,680</u>	<u>\$35,000</u>

### Compensated Absences Closing Package

Twenty of the 25 employee leave liability balances on the agency's worksheet to compute the liability to be reported in its compensated absences closing package were wrong. All of the errors related to employee hourly rates and most of the errors occurred because the preparer used the hourly rates in effect for the wrong fiscal year-end, June 30, 1996 instead of June 30, 1997. Section 3.17 of the GAAP Manual provides guidance on the preparation of this closing package and its supporting working papers and specifically instructs the preparer to use the pay rate in effect at the applicable June 30.

The preparer told us she uses the prior year's schedule to initially create the current year leave liability spreadsheet. She said that the errors occurred because either she used the wrong payroll register or she forgot to save the spreadsheet after making changes to it. We also determined that the person who prepares the spreadsheet is signing the closing package as the reviewer. The person designated as the preparer on the closing package only types the summarized information from the spreadsheet onto the closing package.

### Fixed Assets Closing Package

The School did not properly report construction contract retentions on the fixed asset additions reconciliation. The closing package reported a line which it titled an "unreconciled variance". Accounting personnel could not explain the variance. Section 3.10 of the GAAP Manual details instructions for preparing the fixed asset additions closing package.

### Recommendations

We again recommend the School implement procedures to ensure that all future GAAP closing packages and the supporting documentation contain accurate and complete information in accordance with the GAAP Closing Procedures Manual requirements and instructions. The School should have in place procedures and records to identify, accumulate, and summarize the closing package information and to retain working papers supporting all

### Recommendations (Continued)

information on all forms. Finally, the School should ensure that personnel preparing and reviewing the closing packages are knowledgeable about GAAP and familiar with the GAAP Manual guidance related to the specific closing packages for which they are responsible. Each completed form and the underlying working papers and other support should be independently reviewed by an appropriate supervisory employee other than the preparer.

## **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 Auditor's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 1995, and dated April 15, 1996. [We applied no procedures to the School's accounting records and internal controls for the year ended June 30, 1996.] We determined that the School has not taken adequate corrective action on the deficiencies. We have repeated similar findings in the current report in the GAAP Closing Packages and the Payroll comments.

## **MANAGEMENT'S RESPONSE**

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

July 13, 1998

Mr. Edgar A. Vaughn, Jr., CPA  
SC State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Vaughn:

We have reviewed the preliminary draft report resulting from your performance of agreed-upon procedures to our accounting records for the fiscal year ended June 30, 1997. This letter authorizes the release of the report, provided our enclosed written response to the Accountant's Comments is included in the report.

Also enclosed, per your request, is a list of the names and addresses of our current Board of Commissioners.

Sincerely,

Sheila S. Breitweiser, Ed.D.  
President, SCSDB

Enclosures

## MANAGEMENT'S RESPONSE TO AUDIT REPORT FOR FY97

The audit findings do not reflect any intentional wrongdoing, mismanagement or malfeasance. We concur, either wholly or in part, with the auditor's recommendations. This response restates findings of the various areas reviewed by the auditors. The two areas found to have material weaknesses are addressed separately on the following page. It is our intent to use the report to improve financial and administrative functions of the agency.

No exceptions were found regarding *Receipts* and the internal control procedures utilized for these transactions. Additionally, no exceptions were found regarding *Non-Payroll Disbursements* and the internal control procedures utilized for these transactions.

No exceptions were found regarding *Journal Entries and Operating Transfers*. In addition, the journal entries and operating transfers were mathematically correct and had adequate supporting documentation.

No exceptions were found regarding *Subsidiary Records*, their mathematical accuracy or supporting documentation for posting to the general ledger, or the internal control procedures utilized for subsidiary records.

No exceptions were found regarding compliance with all applicable financial provisions of the *South Carolina Code of Laws, Appropriations Act and other Laws, Rules and Regulations*.

There were no exceptions found regarding *Schedules of Expenditures – Budget and Actual*.

Non-material weaknesses were cited regarding the *Generally Accepted Accounting Principles (GAAP)*. (An example of a non-material weakness was the preparation of a closing package being reported on an incorrect form.)

## MANAGEMENT'S RESPONSE TO MATERIAL WEAKNESSES IDENTIFIED BY THE AUDITORS

### **PAYROLL**

Exceptions regarding payroll disbursements were found due to calculation errors. The audit report, in fact, states "All of the errors were immaterial amounts." The agency has been at an extreme disadvantage due to inadequate computer and software systems for use in payroll. Payroll calculations are done by staff members using office calculators. Given the annual payroll of \$14,000,000, human error is inevitable. During the FY97/98 year, the agency's IBM System 36 mainframe became irreparable, forcing the agency to purchase a new mainframe and accounting software. As the agency transitions to more sophisticated accounting software systems, payroll errors are expected to be less frequent. No exceptions were found regarding the internal control procedures utilized for payroll disbursements.

### **RECONCILIATION**

Exceptions were found regarding timely reconciliation of the agency's accounting records to the Comptroller General's reports. The agency accounting office is understaffed, as is evidenced by the amount of overtime the salaried staff expend. Reconciliations were less priority than payroll, payables, revenue collection, expense monitoring and other critical accounting functions. However, it is believed that the agency's new accounting hardware and software, purchased during the FY97/98 year, will allow for a more efficient operation, including timely reconciliations.