SOUTH CAROLINA SCHOOL
FOR THE DEAF AND THE BLIND

SPARTANBURG, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina

Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 1, 2008

The Honorable Mark Sanford, 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 School for the fiscal year ended June 30, 2007, in the areas addressed. The School'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 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 ($3,900 – general fund, $57,900 – earmarked fund, $44,400 – restricted fund, and $19,500 – federal fund) and $\pm$ 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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

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 School, 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 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 at the subfund and major object code level to those of the prior 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 ($75,000 – general fund, $52,000 – earmarked fund, $42,700 – restricted fund, and $17,800 – federal fund) and ± 10 percent.

   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 processed in accordance with the agency's policies and procedures and State regulations.
   - We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
   - We 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 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 payroll expenditures at the subfund and major object code level to those of the prior 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 ($75.000 – general fund, $52,000 – earmarked fund, $42,700 – restricted fund, and $17,800 – federal fund) and $\pm$ 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 $\pm$ 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**
   - We inspected selected recorded journal entries, and all 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 journal entry transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Appropriation Transfers and Object Codes in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**
   - We inspected 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 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 the procedures.

6. **Reconciliations**
   - We obtained all monthly reconciliations prepared by the School for the year ended June 30, 2007, and inspected selected reconciliations of balances in the School's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if 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 School's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the School's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations and Non-Appropriated Account 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 School's compliance with Appropriation Act general and agency specific provisos.

   We found no exceptions as a result of the procedures.

8. **Closing Packages**
   - We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the School 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the School 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 the procedures.

10. **Status of Prior Findings**
    - We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the School had taken corrective action.

    Our findings as a result of these procedures are presented in Closing Packages, Objects Codes, 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 and of the governing body and management of the South Carolina School for the Deaf and the Blind and is not intended to be and should not be used by anyone other than these specified parties.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

CLOSING PACKAGES

The Comptroller General's Closing Procedure Manual, Section 1.7, Summary of Agencies Responsibilities states: "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." We tested the School's closing packages to determine if the closing packages were complete, accurate, submitted timely, and prepared in accordance with instructions. Based on our procedures we noted the following:

Accounts Payable Closing Package

We noted that the School erroneously included one disbursement voucher totaling $18,510 in its accounts payable closing package. The goods/services related to this voucher were received after June 30, 2007. In addition, we noted that the School incorrectly reported accounts payable related to capitalizable equipment and capital outlay as a current expenditure on the accounts payable summary form.

The Closing Procedures Manual, Section 3.12, Accounts Payable Closing Package defines payables at June 30 as "amounts owed for goods and services that your agency both: Received on or before June 30 and Paid for after June 30." Additionally, GAAP requires that different fund types report their expenditures or expenses in different categories.

We recommend the Department follow the guidelines set forth in the Comptroller General's Closing Package Instructions to correctly classify Accounts Payable on the Accounts Payable Closing Package.

Capital Assets Closing Package

The Capital Assets Closing Package contained several errors. Current depreciation was omitted on the reclassification of construction in progress to buildings for the completed Hall Dorm project. Vehicles, Machinery, and Equipment acquired during the year (along with the current depreciation for those assets) were not recorded on the closing package. Amounts reported on the School's Additions Reconciliation form did not agree to supporting documentation.

The Closing Procedures Manual, Section 3.9, Capital Assets and Accumulated Depreciation Closing Package requires the capitalization of assets that are placed in service and meet the minimum dollar threshold and minimum useful life requirements. In addition, it requires a state agency be consistent in the application of first year depreciation to assets placed in service.

We recommend the School perform a careful review of the Capital Assets Closing Package for compliance with applicable instructions. We also recommend the School incorporate necessary corrections to the asset balances on the Fiscal Year 2008 closing package.

Compensated Absences Closing Package

The School understated its compensated absences liability on the Compensated Absences Closing Package by $91,820. The School inadvertently excluded earned vacation days exceeding the maximum allowable calendar year-end carry forward balance from the reported liability.

The Closing Procedures Manual, Section 3.17 explains the State's policy for recording the compensated absences liability. This policy specifies that agencies are to report the accumulated unused annual leave accrued by employees at June 30.

We recommend the School implement procedures to ensure the Compensated Absences Closing Package is completed in accordance with the Closing Procedures Manual instructions.

Cash and Investments Closing Package

The School reported the bank balance on its Cash and Investments Closing Package instead of the book balance for their composite reservoir account. As a result the closing package was understated $740.

The Closing Procedures Manual Section 3.1, Cash and Investments Closing Package, requires that agencies report their book balance for composite reservoir accounts to comply with Generally Accepted Accounting Principles (GAAP) reporting requirements for cash and investments.

We recommend the School implement procedures to ensure the Cash and Investments Closing Package is completed in accordance with the Closing Package Manual instructions.

OBJECT CODES

We found that the School had miscoded two of nineteen Appropriation/Cash transfer transactions tested. For one of the Appropriation/Cash transfer transactions tested, the School used object code 3901 (Medicaid and Medicare Reimbursements) to record indirect cost remitted to the General Fund. Object code 2802 (Indirect Costs – General Fund) should have been used for this transaction. The second transfer related to the revenue earned from the sale of surplus property. The School recorded this transaction using object code 7802 (Sale of Goods) instead of object code 7859 (Sale of Machinery and Equipment Non-capitalized).

During our follow-up on prior year findings, it was discovered that corrective action had not yet been taken for the coding of receipts for the rental of a copier. The transactions were incorrectly coded to object code 7803 (Sale of Services) instead of 7407 (Rent – Equipment). In addition, corrective action had not been implemented to correct a receipt object code error cited in the accountant's section of the prior year report. (Improper Classification of Revenue).

Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines revenue object codes and their applicability.

We recommend that the School develop and implement procedures to ensure that individuals responsible for approving accounting transactions are familiar with STARS object code definitions and that they perform a review to ensure that object codes have been properly assigned.

RECONCILIATIONS

While appropriate corrective action was taken for the condition cited in the prior year report relating to reconciliations, two additional exceptions were noted during our current year testing. We noted that the School was not performing a reconciliation of cash balances to the State's Accounting and Reporting System (STARS) in fiscal year 2007. Additionally, we noted that journal entries were being posted to the School's accounting records well after year-end closing and the completion of thirteenth month reconciliations.

The Statewide Accounting and Reporting (STARS) Manual, section 2.1.7.20, states in part, "Monthly reconciliations for revenues, expenditures, and cash balances must be performed at the level of detail in the Appropriation Act." In addition, internal controls ensuring books are closed at year-end are required to help ensure that financial information is reliable and accurate.

We recommend that the School implement procedures to ensure that cash reconciliations are prepared timely and accurately as required by the STARS Manual and that procedures are placed in operation to ensure that School books are timely closed after year-end.

COMPOSITE RESERVOIR ACCOUNT

The School maintains a bank account approved by the State Treasurer for student activities such as canteen supplies, coaches, referees, and fundraising. The balance of this account is reported on the Cash and Investments Closing Package. During our test of the cash/investment closing package, we reviewed the school's bank account activity, including monthly bank reconciliations and a detailed review of judgmentally selected receipts and disbursements. We noted several exceptions during our review of the receipts and disbursements.

For several receipt transactions, we were unable to determine the date that the cash was initially received. The School documented when the cash was received by the accounting department, however the cash was initially received by other departments and the date the cash was received by those departments was not documented.

We also noted one instance, where the cash receipt was not deposited in a timely manner. The cash receipt was deposited more than three weeks after it was received.

Our final exception related to transactions which didn't meet the purpose or function of the account. These transactions were for internet services and, based on our review should not have been paid from the composite reservoir account.

Effective internal controls require that the School have procedures in place to document the receipt of funds and to ensure that those funds are deposited timely as defined by State law. Proviso 72.1 of the fiscal year 2007 Appropriation Act defines timely deposits as once a week when practical. The School should only process transactions through its composite reservoir account that fall within its approved use.

We recommend that the School strengthen the controls over the composite reservoir account to ensure that the date of initial receipt is documented and those funds are deposited timely. Also, the composite reservoir account should only be used for its intended purpose.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

APPROPRIATION TRANSFERS

We were unable to trace and agree the Appropriation/Cash transfer transactions to the School's accounting system for seventeen of the nineteen transactions tested. According to School personnel, the reason for this exception is that the School does not post budget adjustments to its accounting system. Of the seventeen exceptions, ten related to borrowing and re-payment of short-term loans, three related to budget adjustments, and four related to transfers from other state agencies. In addition, we noted that the School used the same Appropriation/Cash transfer document number to account for two different transactions. No control list is maintained to document the assignment of Appropriation/Cash transfers document numbers. Because there is no process in place to control the assignment of document numbers, errors can occur and go undetected.

Effective accounting controls require that all transactions be recorded and controlled by a common system which tracks budget adjustments and controls the assignment of document numbers.

We recommend that the School implement procedures to ensure that budget adjustments are recorded and that transactions are assigned in numerical sequence.

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 the School for the fiscal year ended June 30, 2006, and dated April 25, 2007. We determined that the School has taken adequate corrective action on each of the findings except for the following: Capital Assets Closing Package, Improper Classification of Revenue (Object Code in current report), and Reconciliations.

MANAGEMENT’S RESPONSE

SOUTH CAROLINA SCHOOL FOR THE DEAF AND THE BLIND

MANAGEMENT'S RESPONSE
FOR THE FISCAL YEAR ENDED JUNE 30TH, 2007

SECTION A – VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

The following errors were noted:

Closing Packages

*Erroneous inclusion of a post- June 30 disbursement voucher in accounts payable closing package
*Current depreciation omitted on certain qualifying assets FY2007 capital assets closing package
*Compensated Absences liability was understated by exclusion of vacation days exceeding maximum allowed calendar year-end carry forward balance in Compensated Absences Closing Package
*Composite reserve account recorded bank balance instead of book balance in Cash and Investments Closing Package.

Object Codes

* Two of nineteen AT transfers were coded using the wrong STARS object code classification.

Reconciliations

* Reconciliation of cash balances not performed
* Journal entries erroneously recorded as post thirteenth month transactions.

Composite Reserve Account

* Unable to determine date when cash was initially received by departments on campus and one instance of cash not being deposited in a timely manner.

Recommendation...the School follow the guidelines set forth in the Comptroller General's Closing Package Instructions to correctly complete these closing packages.

Action Taken – The School will ensure that those completing and reviewing the closing packages will explicitly follow the Comptroller General's instructions for completing closing packages.

SECTION B – OTHER WEAKNESSES

The following errors were noted:

Appropriation Transfers

* Appropriation/Cash transfer transactions were not able to be traced in the School's accounting system because budget adjustments were not recorded.

Recommendation...the School implements procedures to ensure that budget adjustments are recorded and transactions are assigned a numerical sequence.

Action Taken - The School will implement a set of tasks and procedures for making sure that all budget adjustments are recorded and transactions are assigned in an ordered sequence.

SECTION C – STATUS OF PRIOR FINDINGS
Adequate corrective action taken on each finding except for: Capital Assets closing packages, Improper Object Code Classification, and Reconciliations.

Action taken – Reassignment of duties for staff responsible for closing packages, reconciliations training and educational review of object code classifications for all staff who record revenue or expense transactions.

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