

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

SPARTANBURG, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

State of South Carolina



Office of the State Auditor

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

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

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

May 16, 2014

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, 2013, 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

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-5
II. ACCOUNTANT'S COMMENTS	6
SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS	7
REPORTING PACKAGES	8
SECTION B - OTHER WEAKNESS	9
COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS	10-11
SECTION C - STATUS OF PRIOR FINDINGS	12
MANAGEMENT'S RESPONSE	13



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 16, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
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, 2013, 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 (\$175,000 – earmarked fund, \$100,000 – restricted fund, and \$20,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 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 (\$200,000 – general fund, \$125,000 – earmarked fund, \$100,000 – restricted fund, and \$20,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 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 (\$200,000 – general fund, \$125,000 – earmarked fund, \$100,000 – 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. We found no exceptions as a result of these procedures.

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 individual 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, 2013, 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.

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 and individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Composite Reservoir Account 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, 2013, 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 finding as a result of these procedures is presented in Reporting 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 fiscal year ended June 30, 2013, 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 work papers and accounting records.

We found no exceptions as a result of these 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 Agency for the fiscal year ended June 30, 2012, to determine if Agency had taken corrective action.

Our finding as a result of these procedures is presented in Composite Reservoir Account 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, governing body, management of the South Carolina School for the Deaf and the Blind and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



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 director and financial 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 one exception. The "Operating Leases Summary Form – Lessee" was not dated by the preparer or approver to acknowledge the completion date of the reporting package. This was due to a lack of management oversight. It is important for all reporting packages to be dated by the preparer and approver and submitted to the Comptroller General's Office by the due date because the Comptroller General's Office uses the Agency's financial information in preparing the Statewide Comprehensive Annual Financial Report. When the reporting packages reflect the prepared and approved dates, management of the Agency can determine whether it has an internal control weakness related to the timely completion and submission of reporting packages to the Comptroller General's Office. We recommend that the Agency develop and implement procedures to ensure that all reporting packages are dated by the preparer and approver, and that they are completed in accordance with the Comptroller General's instructions.

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.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

We selected two bank reconciliations (December 2012 and June 2013) to determine if they were properly reconciled and agreed to supporting accounting records. We also selected a random sample of twenty-five disbursements issued from the Agency's composite reservoir account to determine if they were authorized and recorded in accordance with the Agency's policies and procedures and State regulations. Based on the procedures performed, we noted the following exceptions:

1. The amount listed as the "balance per bank" on the December 2012 reconciliation did not agree to the State Treasurer's Office monthly report by \$200. The difference was not identified or explained on the reconciliation. This was a repeat finding from our prior fiscal year procedures and was rectified prior to the June 30, 2013 reconciliation.
2. One of the disbursements tested did not include the proper approval on the purchase requisition. As a result, an employee was reimbursed for a purchase that was not certified by an authorized Agency official.

The balance 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 a properly approved payment request that explains the purpose and nature of the transaction.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS, (CONTINUED)

The Agency does not have procedures in place to ensure that all reconciling items reflected on its bank reconciliations are properly identified and/or explained and that all disbursements issued from its composite reservoir account are supported by an approved payment request or purchase requisition that explains the purpose and nature of the transaction. As a result, the Agency's cash balance has a greater likelihood of being misstated and there is greater risk that disbursements may be issued for unauthorized purposes. We recommend that the Agency implement policies and procedures related to preparing and reviewing its bank reconciliations, including identifying and investigating reconciling items, along with making sure that each disbursement is accompanied with an approved payment request or purchase requisition. These policies and procedures will help ensure that the bank reconciliations are complete and accurately prepared, and that disbursements are for authorized purposes.

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 State Auditor's Report on the Agency for the fiscal year ended June 30, 2012, and dated June 28, 2013. We determined that the Agency has taken adequate corrective action on each of the findings, except we have repeated the finding related to a reconciling item not being properly identified or explained on the Agency's composite reservoir account reconciliation. We identified this as a repeat finding in the respective section of this report.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA

SCHOOL FOR THE DEAF AND THE BLIND

Serving Individuals Who Are Deaf, Blind or Sensory Multidisabled

Mr. Richard H. Gilbert, Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

May 16, 2014

Dear Mr. Gilbert,

Below you will find management responses to Auditor findings for the Year Ended June 30, 2013 as noted by the team from Elliot Davis LLC.

Section A: State Laws, Rules, and Regulations

The new Chief Financial Officer and his Senior Budget Analyst have conducted a review of all yearly finance activities and are wrapping up development of a calendar to ensure the timely completion of all agency reporting, including the fiscal year end reporting packages.

CFO sign-off of all reporting packages will ensure that preparation and approval dates are accurate, and that appropriate review has been conducted.

Section B: Other Weaknesses

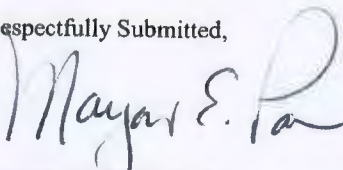
1. As noted, the \$200 unreconciled balance was corrected subsequent to the December 2012 reconciliation.
2. Regarding the disbursements testing, the transaction in question was tied to the agency's local "non-appropriated" bank account, used for minor local deposits and disbursements. One of our principals was requesting a small expense reimbursement. Instead of having her administrative assistant complete the requisition, the principal completed and signed it herself. The requisition was reviewed and approved by appropriate finance department personnel prior to disbursement.

We have attached a copy of the existing policy, which is based on input from prior auditors' recommendations.

Section C: Prior Findings

The one item noted in the auditors' report has already been addressed in Section B. No further comments were requested.

Respectfully Submitted,



Margaret E. Park, Ed.D.
President



Charles Tillotson
Chief Financial Officer

SCSDB Accreditations

South Carolina State Department of Education (SDE) • Conference of Educational Administrators of Schools and Programs for the Deaf (CEASD)
Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS CASI)
A Palmetto Gold School • A Red Carpet School

355 Cedar Springs Road • Spartanburg, South Carolina 29302-4699 • Voice/TTY: 864-585-7711 • Voice/TTY: 1-888-447-2732 • Fax: 864-585-3555
www.scsdb.org

Non Appropriated Accounts

Non Appropriated (Student Fund Raising) Accounts are created with approval of the Division Director, the agency CFO, the head of the Walker Foundation, and agency President. Line items for these accounts are created in the Quicken software that holds all NA transactions.

Deposits into Non Appropriated Accounts are performed by completing a "Deposit Record" form that includes which account this money is to be deposited into, who is making the deposit, where the money came from and the amount, broken down by coins, bills, and individual checks. The deposit is given to the Non Appropriated Account Coordinator and they will be given a copy for their records. Deposits are made weekly unless additional deposits are necessary.

Check requests are to be made by completing a "Non Appropriated Payment Request Form". This form must be completed in full and signed by the Requestor, Account Manager, and Division Director. Checks will be completed within 3-5 business days of the request being received in Finance.

- If the request is to pay for something that is to be ordered a copy of the requisition or quote must be attached.
- If the request is to pay for something that has been received a copy of the invoice must be attached.
- If it is to reimburse the staff member for something that has already been purchased, services that have been received a receipt showing the exact amount must be turned in. If the purchase was made by a credit card, a copy of that staff member's card statement must be attached.
- If the request is for an advance to make a purchase, all receipts and change must be turned in within 3 business days after the purchase has been made.

Balance and transaction reports are available to each account manager monthly or more frequently upon written request.

The Non Appropriate account is reconciled monthly after a statement is received from both the state treasurer's office and Bank of America. The reconciliation process is completed through Quicken software. Once the process is completed, the reconciliation report is run and placed in that month's folder containing copies of all checks and deposits.