



COMPLIANCE AND CONTROL AUDIT REPORT

**School for the Blind
School for the Deaf**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 2002**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-

Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative James Garner
Representative Dean Newton
Representative Dan Thimesch

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Barbara J. Hinton, Legislative Post Auditor

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LEGISLATURE OF KANSAS
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April 24, 2002

To: Members, Legislative Post Audit Committee

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative Jim Garner
Representative Dean Newton
Representative Dan Thimesch

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the School for the Blind and School for the Deaf. The report includes several recommendations for improving the schools' financial management practices. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style with a large initial 'B'.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Have the School for the Blind and School for the Deaf Used Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements?

The Schools for the Blind and Deaf used their locally administered moneys appropriately and in accordance with applicable requirements, but some improvements are needed to decrease risks of loss or misuse. To comply with State law and the guidance of the Division of Accounts and Reports, some transactions now processed using the trust funds should be processed using the benefit funds. Such transactions would include receipts from fund-raising activities and class dues and the expenditure of those moneys. In addition, applicable procedures should be in writing, and bank reconciliations should be done by, or reviewed by, someone other than the funds' custodians. Finally, at the School for the Deaf, better guidance and oversight by the Business Office is needed for how student moneys are spent. Currently the Business Office disburses student moneys to dormitory personnel and class sponsors, who are responsible for both spending and related recordkeeping without guidance or oversight from that Office.

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This audit was conducted by Randy Tongier and Kate Watson. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

School for the Blind School for the Deaf

The Legislative Division of Post Audit has conducted compliance and control audit work at the School for the Blind and School for the Deaf. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the use of School funds that are kept locally rather than in the State Treasury, such as student trust funds. Such moneys aren't subject to some of the central controls of the Division of Accounts and Reports. The audit addresses the following specific question:

- 1. Have the School for the Blind and School for the Deaf used their locally administered moneys appropriately and in accordance with applicable requirements?**

To answer this question, we reviewed applicable provisions of State law and the Division of Accounts and Reports' Policy and Procedures Manual, interviewed officials at the facilities, reviewed and evaluated facility procedures, and reviewed a sample of facility files and records. This audit work covers fiscal year 2001.

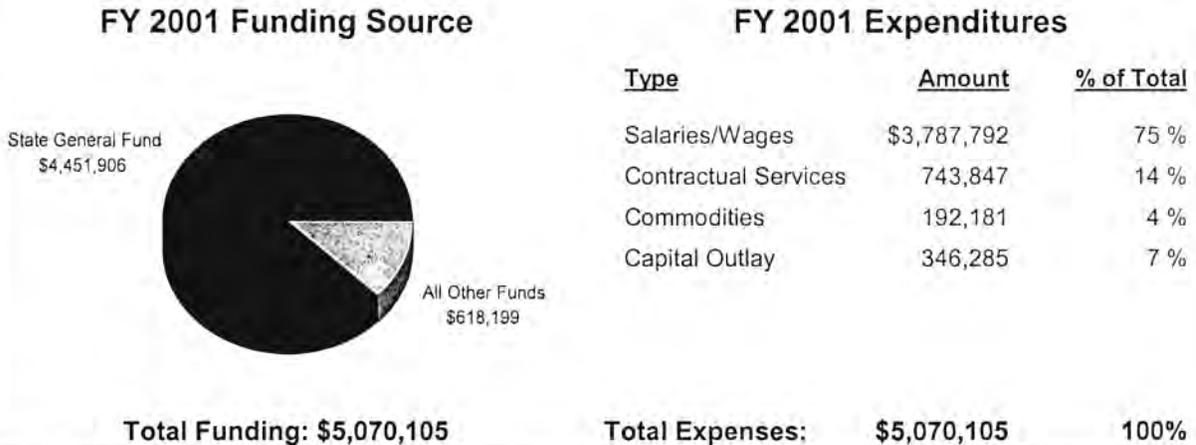
In conducting this audit, we followed all applicable government auditing standards

School for the Blind AT A GLANCE

Authority: Created by K.S.A. 76-1101.

Staffing: The School has 92.5 full-time equivalent positions.

Budget: For the most recent year, the School spent about \$5 million, as shown below.



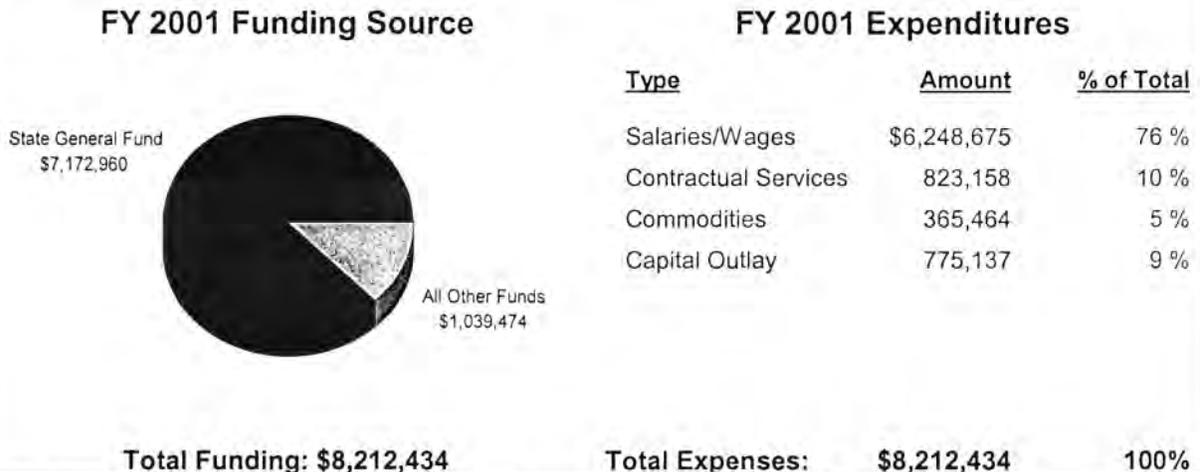
Source: Governor's Budget Report, Fiscal Year 2003

School for the Deaf AT A GLANCE

Authority: Created by K.S.A. 76-1001.

Staffing: The School has 173.5 full-time equivalent positions.

Budget: For the most recent year, the School spent about \$8 million, as shown below.



Source: Governor's Budget Report, Fiscal Year 2003

Question 1: Have the School for the Blind and School for the Deaf Used Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements?

The School for the Blind and School for the Deaf generally used their locally administered moneys appropriately and in accordance with applicable requirements. However, there's an increased risk that inappropriate transactions could occur and go undetected. That increased risk arises because the School for the Deaf disburses Trust Fund moneys to dorm personnel and class sponsors without adequate guidance and oversight. In addition, at both schools written guidance isn't detailed enough, and bank reconciliations are done by the fund custodian without independent review. Finally, although it doesn't increase the risk of inappropriate transactions, both schools used their trust funds for transactions that State law and other guidance seem to require be handled in the benefit funds. These and other findings are discussed in the sections that follow.

The Schools for the Blind and Deaf Used Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements, But Some Improvements Are Needed To Decrease Risks

The Schools for the Blind and Deaf are responsible for several different kinds of locally administered funds. The Schools' imprest funds are reviewed periodically by the Division of Accounts and Reports. To avoid duplication of effort, we didn't look at those funds. The following is a brief description of the 2 types of funds covered by this audit:

- **Benefit Fund**—Moneys used to pay the cost of activities or purchases for the students' entertainment or welfare, such as cable television service and student trips. Principal sources of moneys are vending machine receipts and interest earned.
- **Trust Fund**—Moneys belonging to the students that are held by the school. Students may use these moneys to buy personal items.

Moneys in the Schools' locally administered funds were used for appropriate purposes, but some transactions processed using the trust funds probably should have been processed using the benefit funds. During fiscal year 2001, both schools held fund-raisers (for example, the sale of shirts) or collected class dues to fund certain student activities. State law and guidance from the Division of Accounts and Reports call for these moneys to be deposited into and spent from the Schools' benefit funds. However, our review of a sample of receipts and expenditures at each facility showed that both schools processed many of these transactions through their trust funds. While the transactions themselves were appropriate, they weren't handled in the manner required.

Facility procedures for locally administered funds generally were appropriate, but some strengthening is needed. The facilities are responsible for developing procedures to ensure that locally administered moneys are used appropriately and that those procedures are followed. State law and guidance from the Division of Accounts and Reports also specify certain procedures that State agencies should use for their locally administered funds. Basic procedures to help ensure that moneys are properly used include the following:

- Designate an individual to be responsible for each of the funds
- Reconcile fund records with bank statements on a monthly basis
- Either have a staff member other than the fund's custodian do the monthly bank reconciliation, or have an independent staff member review the reconciliation prepared by the fund's custodian
- Adopt specific procedures for each fund at each facility, and document and communicate those procedures
- Prepare periodic financial reports for management review

To identify and evaluate the procedures used by each facility, we interviewed appropriate facility officials, reviewed written procedures, examined financial reports, reviewed bank reconciliations, and tested a sample of receipt and expenditure transactions. In general, the facilities had appropriate and required practices in place. The exceptions we noted are summarized below:

- ***The School for the Deaf deposits its students' personal moneys and class dues in the Trust Fund bank account, but disburses those moneys to dormitory personnel and class sponsors for subsequent spending without adequate guidance or oversight.*** Instead, dormitory staff and class sponsors developed their own ways of handling and keeping track of those moneys, with no reports made to the Business Office. As a result, there's a significant risk that student moneys may be lost, misrecorded, or even misused without detection.
- ***Written procedures at the facilities generally don't provide enough detail about how locally administered fund transactions are to be handled.*** The Policy and Procedures Manual of the Division of Accounts and Reports is available. However, that document can't provide sufficient guidance about appropriate day-to-day activities specific to an individual facility. Without more specific guidance, the risk of transactions not being appropriately handled, recorded, and

reported is increased. This is particularly important when a new fund custodian is appointed, or when other staff have to handle transactions while the regular custodian is absent.

- ***Bank reconciliations weren't done or reviewed by a staff member other than the fund custodian.*** Having the bank reconciliation done or at a minimum independently reviewed by someone other than the custodian can help identify and correct inappropriate transactions. The practice serves both as a deterrent and as a check for inappropriate payments. The limited number of Business Office employees can make this procedure difficult to implement, but the Schools should at least consider it.

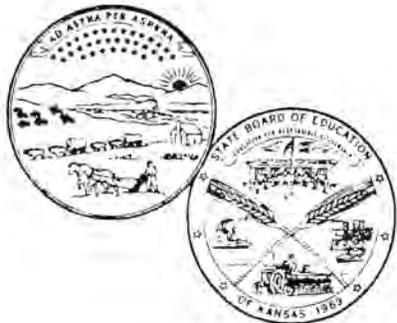
Recommendations

1. To comply with State requirements and reduce the risk of inappropriate use of locally administered moneys, the Schools for the Blind and Deaf should do the following:
 - a. limit the use of their Trust Funds to individual moneys belonging to the students (class dues and proceeds from fund-raising activities should be handled in their Benefit Funds)
 - b. develop specific written procedures to provide guidance for handling locally administered moneys
 - c. work toward ensuring that bank reconciliations are done by, or reviewed by, someone other than the fund custodian
2. To reduce the risk of loss, misrecording, or misuse of student moneys, the School for the Deaf should work with the Division of Accounts and Reports to ensure that it has appropriate controls in place to ensure that student moneys are accounted for and appropriately used.

APPENDIX A

Agency Response

On April 12, 2002, we provided copies of the draft audit report to the Schools for the Blind and the Deaf. Their responses are included as this Appendix.



KANSAS STATE SCHOOL FOR THE BLIND

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April 12, 2002

Barbara J. Hinton, Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower
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Topeka, Kansas 66612-2212



Re: Compliance and Control Audit

Dear Auditor Hinton:

Thank you for the opportunity to review and respond to the compliance and control audit concerning the use of moneys locally administered by the School for the Blind. Please let us take this moment to thank your auditor, Kate Watson, and your audit manager, Randy Tongier, for the professional and courteous manner in which this audit was conducted.

We are pleased, of course, with the summary finding that the School for the Blind used the locally administered moneys appropriately and in accordance with applicable requirements.

We will begin promptly to modify KSSB procedures to comply with the three audit recommendations. We will separate duties so that a person other than the custodian of a fund reconciles the bank statements for that fund; we will separate class and activity moneys from the Student Trust Fund; and we will develop specific written procedures for handling locally administered moneys.

Sincerely,

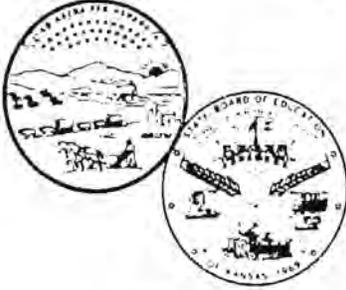
A handwritten signature in black ink, appearing to read "W. Daugherty".

William Daugherty
Superintendent

A handwritten signature in black ink, appearing to read "Robert W. Shaumeyer".

Robert W. Shaumeyer
Business Manager

AN EQUAL EMPLOYMENT/EDUCATIONAL OPPORTUNITY AGENCY



KANSAS STATE SCHOOL FOR THE DEAF
OVER A CENTURY OF SERVICE. ESTABLISHED 1861.

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April 15, 2002

Barbara J. Hinton
Legislative Division of Post Audit
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Dear Ms. Hinton,

I am writing in response to your recent audit of our agency's locally administered funds. As indicated in your report, monies received by our agency have been used appropriately for the benefit of students at Kansas School for the Deaf. However, we do agree with your findings that there can be some improvement in the procedures involved in handling these funds and would like to address your recommendations:

- a) We will immediately begin using the Pupil's Trust Fund for individual student allowance money only. Class dues and any fund-raising proceeds will be handled through the Student Benefit Fund.
- b) We are currently working on written procedures for each staff member involved in administering money through the Trust Fund or Benefit Fund. This will provide guidance when new staff members are hired, as well as provide a guideline for the Business Manager to use in reviewing expenditures from these funds.
- c) With a recent re-organization of clerical staff, our Accounts Receivable position will be processing the receipt of monies and reconciling bank statements. The Business Manager will then be responsible for reviewing and accepting reconciliations.

We appreciate the guidance and insight your staff provided during the audit, and their willingness to accommodate the various work schedules involved in meeting with our staff members.

Sincerely,

Dr. Robert A. Maile
Superintendent

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VISITORS WELCOME