

**SOUTH CAROLINA STATE
COMMISSION FOR MINORITY AFFAIRS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 2, 1999

The Honorable James H. Hodges, Governor
and
of the Commission
South Carolina State Commission for Minority Affairs
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Commission for Minority Affairs, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1998, 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 all recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested all 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 from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. Our finding as a result of these procedures is presented in Receipts in the Accountant's Comments section of this report.

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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 Commission, were paid in conformity with State laws and regulations, and if internal controls over the tested disbursement transactions were adequate. We also tested 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine that the vouchers were properly approved and that the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as comparing current year payroll expenditures with those of the prior year and comparing the percentage change in personal service expenditures to the percentage change in employer contributions, to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the internal controls over these transactions were adequate; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The individual journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Commission 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 internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in General Ledger in the Accountant's Comments section of this report.

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6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1998, and tested selected reconciliations of balances in the Commission's accounting records to those in 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 Commission'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 Commission's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Commission'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 1998. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the Commission and submitted to the State Comptroller General. We 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. We found no exceptions as a result of the procedures.

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. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission'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 information and use of the Governor, the Commission members, and the management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

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 internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components 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 effective internal controls.

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

GENERAL LEDGER

During our review of the Commission's general ledger, we noted that documents were not properly numbered and were not always used in sequence. We found that each of four different document numbers was used twice to record separate transactions. We also noted two instances in which there were gaps in the numerical sequence of a document series.

The Commission uses a popular commercial software program to record transactions rather than a program developed specifically for governmental accounting. Based on our observations and inquiries, the Commission's Fiscal Technician does not exhibit adequate knowledge to use this software effectively.

Effective internal controls require the entity to have knowledgeable and trained staff, adequate policies and procedures, and an appropriate accounting system to help ensure the proper recording, processing, summarization, and reporting of transactions and balances. For there to be accurate and adequate financial information and communication thereof, the system must include appropriate methods and records, such as the use of numbered documents within applicable series by type of document/transaction, and the use of these numbered documents in sequence.

We recommend that the Commission determine whether its choice of accounting software is appropriate for a state government entity and this agency's specific needs and, if not, select an appropriate system. Regardless of what software is chosen, the agency must ensure that its Fiscal Technician is properly trained to operate the accounting system. We also recommend that the Commission implement procedures to ensure that documents are properly numbered and used sequentially (e.g., through the use of a document number control list).

RECEIPTS

Commission procedures require documents supporting collections be date-stamped; the money be recorded on a monthly log sheet and in the receipt book; a duplicate receipt from the receipt book be returned to the payor; and the monies be deposited at the bank. We found that the Commission had a total of six receipts in fiscal year 1998, all of which were either not properly documented, recorded, or deposited as follows. For four of the six receipts, receipt dates differed between the log sheets and the receipt book. Also, only three of the six support document packages had been date-stamped upon receipt and one of those dates was not in agreement with either the log sheet or receipt book. One receipt that was classified as sale of service revenue had no supporting documentation. In addition, one receipt was not deposited in a timely manner because the funds were received on April 6, 1998, but not deposited until April 16, 1998.

Effective internal controls over record keeping require that all transactions have adequate supporting documentation and that staff timely and properly record transactions in accordance with Commission and State policies and procedures. Section 1 of Part IB of the 1998 Appropriation Act requires that receipts be remitted to the State Treasurer at least once each week, when practical.

We recommend that the Commission properly record receipt transactions and make deposits in a timely manner. The Commission should implement procedures to ensure that documentation which supports receipt/revenue classification exists and that the agency retains it. When receipt dates are properly recorded on documents and in the accounting records, the dates on the supporting documentation, monthly log sheets, and the receipt book will agree.

MANAGEMENT'S RESPONSE

May 25, 1999

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

Thank you for affording me the opportunity to review the preliminary draft copy of the report resulting from the performance of agreed-upon procedures to the accounting records of the South Carolina Commission for Minority Affairs. I am providing the following response to the two identified material weaknesses noted in the report.

Receipts

As your review indicated, the Commission does not collect numerous amounts of monies. In order to have a check and balance system, more than one person was involved in date-stamping the checks, logging-in the checks, and writing the receipts. Based upon this procedure and the fact that these transactions were intermittent, there was a break down in preciseness of the record keeping. In order to ensure that this problem does not occur again, the following procedure has been implemented since the review. The tasks of date stamping checks, logging in checks and preparing receipts will be handled by one employee, my Administrative Specialist. She also will indicate on the log the purpose for the check.

The checks will then be delivered to the Fiscal Technician, who will prepare the deposit slip and make the deposit in the local bank in accordance with Section 1 of Part 1B of the 1998 Appropriation Act, which requires that receipts be remitted to the State Treasurer at least once each week, when practical. The two sets of documentation will be reconciled monthly and any discrepancies noted and corrected.

We anticipate that the above changes meet with your requirements for fiscal accountability and sufficient checks and balances.

General Ledger

Three matters were brought to our attention related to the General Ledger. I will address each separately.

Knowledge of Fiscal Technician – Per discussions with Mr. Wayne Sams, the report states, “Based upon our observations and inquiries, the Fiscal Technician does not exhibit adequate knowledge to use software effectively.” It is important to note that the Fiscal Technician had been trained in the use of Quicken III. Two previous reviews and reports from your office gave no indication that your staff thought this employee lacked adequate knowledge to use the Quicken III application. Unfortunately, shortly before your staff arrived, we upgraded our software to “Quicken 98”. That version of the software fundamentally changed the reconciliation process and both the Fiscal Technician and dual employment Senior Accountant were both learning the new application and noting the changes. Because of the upgrade, we had problems running reports while your staff was on-site conducting the review. In order to be compliant with Y2K, we have upgraded since the review to “Quicken 99.” The problems in running the reports were software related, as attested by the fact that “Quicken 99” has restored the former reconciliation format used in Quicken III. Please note again, that we had no problem in former years with providing the reports. However, in response to your observation, we are providing additional training for the Fiscal Technician, who serves as this agency’s fiscal officer. We will continue to call upon the expertise of the dual employment Senior Accountant to conduct regular reviews and to assist the Fiscal Technician, as needed.

Appropriateness of Quicken Accounting Software – During the closing conference, we discussed the appropriateness of the “Quicken” application and also discussed moving from “Quicken” to “BARS.” Further discussions with persons who use “BARS” lead me to keep “Quicken” because the system is more forgiving and requires fewer transactions to correct mistakes. As indicated above, appropriate training on the software and additional accounting classes will be provided for the Fiscal Technician. If problems continue to be noted, then it will be handled through the Employee Performance Management System.

Appropriate Numbering of Documents – Unfortunately, the Fiscal Technician failed to log in one contingent voucher and journal entry, prior to submitting them for authorization. Once the documents were out of sight, she proceeded to process additional entries, resulting in two sets of vouchers using duplicate numbers.

We will develop and implement a pre-numbered system and an internal check to eradicate this problem.

Mr. Thomas L. Wagner, Jr., CPA
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Given the above response, I ask that you reconsideration whether these matters warrant the designation of major findings. Regardless of your decision, I authorize you to release your report.

In closing, I take this opportunity to thank your staff for their honesty and professionalism while present in this office. We take very seriously the comments and guidance provided through this review and report. It is hoped that this response demonstrates our commitment to sound fiscal practices and continued improvements in the overall operation of the agency.

If you have any questions about this response, please contact me personally.

Sincerely,

Janie A. Davis
Executive Director

Attachments