

**SOUTH CAROLINA
COMMISSION FOR THE BLIND
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2005

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 3, 2006

The Honorable Mark Sanford, Governor
and
Commission Members
South Carolina Commission for the Blind
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Commission for the Blind (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2005, in the areas addressed. The Commission'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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cash Receipts and Reconciliations/General Ledger in the Accountant's Comments section of this report.

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, were bona fide disbursements of the Commission, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations/General Ledger in the Accountant's Comments section of this report.

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 internal controls over these transactions were adequate.
- 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 recorded payroll expenditures to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations/General Ledger in the Accountant's Comments section of this report.

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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual journal entry transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Indirect Costs, Reconciliations/General Ledger, and Journal Entry Review and Approval 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 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 selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations/General Ledger in the Accountant's Comments section of this report.

6. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, 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 2005.

Our finding as a result of these procedures is presented in Reconciliations/General Ledger in the Accountant's Comments section of this report.

7. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2005, prepared by the Commission 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; 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 Reconciliations/General Ledger in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, prepared by the Commission 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reconciliations/General Ledger in the Accountant's Comments section of this report.

9. **Status of Prior Finding**

- We inquired about the status of the deficiency described in the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2003, to determine if adequate corrective action has been taken. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2004.)

Our finding as a result of these procedures is presented in Reconciliations/General Ledger 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 areas, 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 Commission 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 - 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.

RECONCILIATIONS/GENERAL LEDGER

The Commission has not prepared and completed monthly reconciliations of recorded revenue, expenditures, cash and federal program activities for fiscal years 2004 and 2005. The Commission is currently working to reconcile their accounting records to the State's Accounting and Reporting System (STARS). However, as of the date of this report, the Commission has not completed this task nor has it closed its books for fiscal years 2004 and 2005.

The STARS Policies and Procedures Manual (STARS Manual), Section 2.1.7.20 requires reconciliations to be performed at least monthly on a timely basis, be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

To ensure the accuracy and reliability of its financial records an entity develops and initiates a system of internal controls to ensure that the objectives of management are met. To ensure that the financial information used by management is reliable and accurate we recommend that the Commission work diligently to close their books. In addition, we recommend that the Commission ensure that all reconciliations are performed timely as required by the STARS Manual.

CASH RECEIPTS

A number of exceptions were noted during our testing of cash receipts. The exceptions are described below:

Miscellaneous Receipting Procedures

During our test of cash receipts, we noted that one transaction in the amount of \$150 was not posted to the Commission's accounting system (BARS). We also noted five cash receipt transactions were not timely posted to BARS. The posting was completed up to four months after the deposit. In addition, three of the transactions tested were not date stamped to document the date of receipt. Finally, Commission receipt documents were not prepared for eight transactions.

Commission policies and procedures require the preparation of receipt documents and the timely recording of accounting transactions.

We recommend that the Commission ensure that the written policies and procedures over cash receipts are followed.

Timeliness of Deposits

During our test of cash receipts we noted five instances where cash deposits were not made in a timely manner. The elapsed time between receipt and deposit for these five deposits ranged from thirteen working days to four months.

Section 72.1 of the 2005 Appropriation Act requires revenues be remitted to the State Treasurer at least once weekly, when practical. Commission policy and procedures also require timely remittance of cash receipts.

We recommend that the Commission follow policies and procedures that ensure timely deposits as required by State law and agency policy.

Recording of Cash Receipts in the Proper Fiscal Year

One fiscal year 2006 cash receipt was incorrectly recorded as fiscal year 2005 revenue on the books of the Commission. The cash receipt was recorded in the correct fiscal year by the Office of the State Treasurer.

State Treasurer's Office year-end close-out procedures require that revenue be recorded in the same fiscal year that the receipt is received.

We recommend that the Commission develop and implement procedures to ensure that cash receipts are posted to the Commission's books in the proper fiscal year.

Object Code

One of twenty-five cash receipt transactions tested was posted to the wrong STARS object code. The cash receipt pertained to vending machine commissions (object code 7825). The Commission posted the transaction using object code 7201 – Miscellaneous Revenue.

The object codes are defined in the Comptroller General's STARS operating manual.

We recommend that accounting personnel exercise care when recording accounting transactions to ensure the proper coding of revenue.

INDIRECT COSTS

The Commission did not remit indirect costs to the general fund from February through June of fiscal year 2005.

The Commission has undergone many changes in accounting personnel over the past several years. These changes resulted in miscommunications with respect to the remittance of indirect costs.

Section 2-65-70 of the South Carolina code of laws states, "All agencies receiving federal grants or contracts shall recover the maximum allowable indirect costs on those projects, subject to applicable federal laws and regulations. All indirect cost recoveries must be credited to the general fund of the State...".

We recommend the Commission remit indirect costs to the general fund as required by law. The Commission should also develop and implement control procedures to ensure the timely remittance of indirect costs.

SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules or Regulations.

JOURNAL ENTRY REVIEW AND APPROVAL

While performing the test of journal entries, 21 of 25 journal entries tested did not contain evidence of proper approval as required by Commission policies and procedures. The entries in question were not independently reviewed and approved by someone other than the preparer.

South Carolina Commission for the Blind Financial and Administrative Policies and Procedures Manual, SCCB Fin 2.00 4, states that all journal entries posted to the general ledger will be authorized by a responsible official who is not involved in the origination of the entries. This policy is consistent with sound internal controls and would be evidenced with the signature of both the preparer and the approver.

We recommend that the Commission take appropriate action to ensure that Commission policy is followed when preparing journal entries and that the resulting documentation provide adequate evidence of compliance with the policies and procedures.

SECTION C - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2003, and dated April 23, 2004. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2004.) We have repeated the finding in Reconciliations/General Ledger in the Accountant's Comment's section of this report.

MANAGEMENT'S RESPONSE



Commissioner
James M. Kirby

South Carolina Commission for the Blind

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October 9, 2006

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Re: State Auditor's Report
June 30, 2005

Dear Mr. Gilbert:

The South Carolina Commission for the Blind appreciates the professional attitude and conduct of your staff during the audit of the agency's financial records and will ensure corrective actions are taken regarding all findings.

1. Reconciliations/General Ledger

Our finance department is currently working on closing fiscal years 2004 and 2005, as well as preparing the monthly reconciliations. We anticipate completion by February 2007. The current year's reconciliations are up to date.

2. Miscellaneous Receipting Procedures

Due to turnover in the Finance area, some transactions were not posted in a timely manner. Having our new staff trained, the receipts will be posted according to policy and procedures (3 — 5 working days).

3. Timeliness of Deposits

Deposits will be made within three to five business days.

4. Recording of Cash Receipts in the Proper Fiscal Year

One cash receipt was recorded in the wrong fiscal year. Our office will closely monitor the end of year transactions in order to match the State Treasurer's Office records.

5. Object Code

One cash receipt transaction was posted to the incorrect STARS object. Our Finance Staff will exercise more caution when coding transactions.

6. Indirect Costs


The Commission did not remit indirect costs to the general fund from February through June of fiscal year 2005. We have a resource that will assist us in these calculations and indirect costs will be remitted to the general fund on a monthly basis.

7. Journal Entry Review and Approval

Our Finance Staff will require two signatures for journal entries posted to the general ledger for control purposes.

Please advise if additional information or explanation is needed regarding the findings.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Kirby", with a large, stylized flourish at the end.

James M. Kirby
Commissioner

The mission of the South Carolina Commission for the Blind is to provide quality, individualized vocational rehabilitation services, independent living services, and prevention of blindness services to blind and visually impaired consumers leading to competitive employment and social and economic independence.

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