

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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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

July 5, 2007

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, 2006, 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 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 earmarked 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 (\$4,300 – earmarked fund and \$37,400 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cash Receipts 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 in accordance with the agency's policies and procedures and State regulations, 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.
- 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 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 (\$23,800 – general fund, \$6,400 – earmarked fund, and \$38,700 – federal fund) and  $\pm 10$  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 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 (\$23,800 – general fund, \$6,400 – earmarked fund, and \$38,700 – 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  $\pm 2$  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 finding as a result of these procedures is presented in Indirect Costs 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 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 Commission for the year ended June 30, 2006, and inspected 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 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 Commission'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 Commission's accounting records and/or in STARS.

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

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.

Our finding as a result of these procedures is presented in Authorized Attorney Fees in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 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, 2006, 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 agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

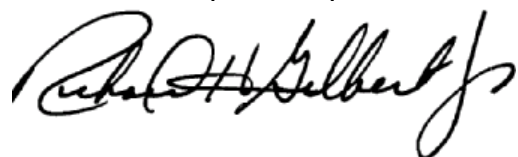
10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2006, to determine if Agency had taken corrective action.

Our findings as a result of these procedures are presented in Indirect Costs and Cash Receipts 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 Commission for 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**

A number of exceptions were noted while testing the Commission's Closing Packages. The Comptroller General's GAAP Closing Procedures 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." The exceptions are described below:

### **Capital Assets Closing Package**

Commission personnel could not provide documentation to support amounts reported on the Capital Asset Closing Package. It was determined that the Commission had not recorded capital asset additions and deletions in its capital assets ledger. As a result asset balances, depreciation, and accumulated depreciation reported on the closing package were misstated.

We recommend the Commission develop and implement procedures to ensure that capital asset transactions are recorded timely. In addition, the Commission should ensure that personnel completing and reviewing the closing package are familiar with the Capital Asset Closing Package instructions. Finally, we recommend that Commission personnel make the necessary corrections to their asset balances on the Fiscal Year 2007 closing package.

### **Compensated Absences Closing Package**

Commission personnel used an incorrect pay rate to calculate the leave liability for one of twenty five employees randomly selected for testing. As a result, the reported liability for compensated absences was understated by \$3,223. The Commission uses the Annual Leave

Liability Report from the State Office of Human Resources to calculate the Commission's leave liability. Commission personnel did not review the report for accuracy.

We recommend that the Commission implement procedures to verify the accuracy of source documentation (i.e., pay rates, leave balances, and calculations) before placing reliance on it.

### **Cash and Investments Closing Package**

We were unable to agree the reported petty cash authorized balance to supporting documentation. The reported amount was approximately \$1,000 less than the authorized balance based on a comparison of Commission records to State Auditor's Office authorizations. This exception was the result of the Commission maintaining inaccurate records.

We recommend the Commission implement procedures for completing and approving this closing package. The procedures should include agreeing current year balances to the prior year balance, authorized balance, and incorporating all current year changes.

### **AUTHORIZED ATTORNEY FEES**

The Commission did not receive authorization from the Attorney General's Office to contract with one law firm during fiscal year 2006. Payments to the law firm totaled \$4,875. The Commission had used the law firm during fiscal year 2005 and assumed the 2005 authorization carried forward to 2006.

Section 32.2 of the fiscal year 2006 Appropriation Act states, in part: "No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

We recommend the Commission implement control procedures for attorney fee payment transactions. The procedures should include ensuring that payment is authorized by the Attorney General for the period that the transaction occurs.

### **INDIRECT COSTS**

The Commission did not remit indirect costs to the general fund for fiscal year 2006. 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 in current and prior years.

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 that 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.

### **CASH RECEIPTS**

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

#### **Receipt Date**

The date of receipt could not be determined on three of the fifty receipt transactions tested. The Commission’s accounting department records the date money is received by the department. However, some receipts are collected at other Commission offices, such as

regional offices or the Business Enterprise Program (BEP) office, and then forwarded to the accounting department for deposit and recording of the transaction. Our exceptions occurred when money was first received at these other locations and the date of the receipt was not documented as part of their standard procedure. Without a documented receipt date, timeliness of deposits and recording of transaction in the proper period cannot be determined.

Section 72.1 of the 2006 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. Commission policy also requires documentation of the date of receipt in order to demonstrate that the receipt was timely deposited.

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

### **Object Code**

The Commission used an incorrect object code to record a receipt transaction. This error was noted in one of the twenty-five transactions tested. The cash receipt related to federal grant revenues. The Commission should have used object code 2822 - Federal Operating Grants – Restricted to record the transaction. However, the transaction was recorded using object code 5732 – Professional and Occupational Violation Fine. A subsequent correction was made to the Commission's accounting records reclassifying the transaction to the proper object code. However, Commission personnel did not post the correction to STARS, resulting in a misclassification in STARS of \$10,350.

Object codes are defined in the Comptroller General's STARS operating manual. Section 2.1.7.20 of the STARS manual requires errors discovered through the reconciliation process to be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

We recommend that the Commission develop and implement procedures to ensure that when correcting entries are posted to the Commission's accounting records, accounting personnel determine the corrections impact on STARS as well.

### **Recording of Receipts by Fiscal Year**

We tested twenty-five receipt transactions in our cut-off test. The Commission recorded one receipt in the wrong fiscal year. The Commission recorded the transaction in fiscal year 2006 even though the cash was received in fiscal year 2007. The transaction was properly recorded as a fiscal year 2007 receipt in the Statewide Accounting and Reporting System (STARS). The error occurred because of a misinterpretation of cut-off procedures for this type of receipt transaction.

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

We recommend that Commission adhere to State Treasurer directives.

### **Timeliness of Posting**

When the Low Vision Clinic provides services to eligible clients, the Commission earns federal grant revenue. The Commission's policy requires the Low Vision Clinic to notify the accounting department in writing that services are provided. Once notified, the accounting department will bill the federal grantor. We noted that the Low Vision Clinic provided services to a client during the period August 29, 2005 through November 4, 2005, but did not notify the accounting department that the services had been provided until July 2006.

When control procedures do not ensure timely processing of accounting transactions, the risk of loss of accounting documents, errors, etc. increases.

We recommend the Commission develop and implement procedures to ensure that the accounting department is timely notified so that the accounting transactions can be processed.

## **SECTION B - 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 Commission for the fiscal year ended June 30, 2005, and dated May 3, 2006. We determined that the Commission has taken adequate corrective action on the findings entitled Reconciliations/General Ledger and Journal Entry Review and Approval. The Commission had not corrected the deficiencies titled Indirect Costs and Cash Receipts. These findings are repeated in Section A of this report.

## **MANAGEMENT'S RESPONSE**





Commissioner  
James M. Kirby

# South Carolina Commission for the Blind

1430 CONFEDERATE AVENUE • PO Box 2467 COLUMBIA, S.C. 29202

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September 12, 2007

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

Re: State Auditor's Report  
June 30, 2006

Dear Mr. Gilbert:

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

## **I. Closing Packages**

All Personnel directly and indirectly responsible for completing closing packages will be retrained and informed of the policies and procedures for individual Closing Packages. Necessary corrections will be done to correct documentation and ensure accuracy in the future.

## **2. Authorized Attorney Fees**

A check and balance control procedure will be implemented to ensure that all attorney payments are pre-authorized by the Attorney General for the period that the transaction occurs.

## **3. Indirect Costs**

Indirect Costs have been remitted to the general fund as required and as of July 2007 the agency is current.

## **4. Cash Receipts**

An agency-wide memorandum has been issued to remind staff of policies and procedures for the collection of cash.

Finance will exercise more caution when coding transactions to ensure accuracy. An examination of current procedures is underway for making corrections to STARS when an object code correction is made in BARS which should also help to ensure accuracy.

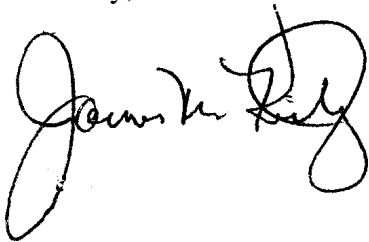
#### **5. Recording of Receipt by FY**

A transaction was done in 13<sup>th</sup> month and recorded as FY 06 whereas the transaction should have been posted in FY 07. Steps have been taken to help staff interpret cut-off procedures and dates to avoid confusion in future years.

#### **6. Timeliness of Posting**

Due to staff changes, services were provided to clients between August 2005 and November 2005 with Finance not receiving the invoices until July 2006. Corrective measures such as policy overviews with new staff as well as training opportunities have been taken to ensure timeliness of payments once services have been rendered.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Kirby". The signature is fluid and cursive, with a large loop at the end.

James M. Kirby,  
Commissioner

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