

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

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
REPORTING PACKAGES	6
Operating Leases Reporting Package	6
Accounts Payable Reporting Package	6
Loan Receivables Reporting Package	7
Capital Assets Reporting Package	7
TERMINATION PAY	8
INDIRECT COSTS	9
SECTION B - OTHER WEAKNESSES	10
RECEIPTS	11
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	11
SECTION C - STATUS OF PRIOR FINDINGS	13
MANAGEMENT'S RESPONSE	14

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 14, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Commission for the Blind
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the 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, 2013, 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 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 (\$100 – general fund, \$3,700 – earmarked fund, and \$40,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in 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 current year expenditures at the subfund and account 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 (\$23,900 – general fund, \$3,300 – earmarked fund, and \$53,500 – federal fund) and ± 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 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 year payroll expenditures at the subfund and account 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 (\$23,900 – general fund, \$3,300 – earmarked fund, and \$53,500 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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 the procedures.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Commission's compliance with Appropriation Act general and agency specific provisos.

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

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 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.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Commission for the Blind
October 14, 2014

8. **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, 2012, to determine if the Agency had taken corrective action.

Our findings as a result of these procedures are presented in Reporting Packages, Receipts, and Schedule of Federal Financial Assistance 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 management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

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

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.

REPORTING PACKAGES

The accountant's comment titled Reporting Packages reported in the Auditor's Report on the Commission for the fiscal year ended June 30, 2012, reported several exceptions associated with the completion of year end reporting packages.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." We tested the Commission's 2013 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions, and exceptions were noted within the following reporting packages:

Operating Leases Reporting Package

The prior year report identified several exceptions associated with the future minimum lease payment schedule.

We inspected the Commission's 2013 reporting package and noted errors in the reporting of future minimum lease payments for three of the Commission's four operating leases. We determined that the errors were the result of (1) a transposition error on the schedule and (2) payments being reported on a calendar year basis rather than a fiscal year basis, as required. The total impact of the errors was an understatement of \$34,361 in future minimum lease payments.

Accounts Payable Reporting Package

We identified an account payable transaction that was not reported on the Commission's reporting package. One of twenty-five disbursement transactions tested for proper cut-off was recorded in the wrong fiscal year because the invoice for the fiscal year

2013 service was received after the close out period and was recorded in fiscal year 2014. Although the transaction was flagged in the system as a payable, it was not keyed properly to be identified and included in the accounts payable report. As a result the transaction was not identified by Commission staff and included in the reporting package.

Loan Receivables Reporting Package

The prior year report identified several deficiencies associated the loans receivable reporting package. As a result of the prior year comments, the Commission made revisions to the prior year reporting package. We reviewed the 2013 reporting package and compared it to supporting documentation. Based on our testwork we determined that the beginning and ending loan receivable balance on the reporting package did not agree to the Commission's subsidiary ledger of outstanding loans. The Commission could not provide a schedule reconciling the reporting package balances to its subsidiary ledger.

Capital Assets Reporting Package

The prior year report identified several exceptions associated with this reporting package, including failure to complete an inventory of assets during the fiscal year, and acquisitions and disposals reflected within the Commission's internal tracking of capital assets but not in the Statewide accounting system.

The current year testwork revealed that the Commission did not perform the required annual inventory of personal property in fiscal year 2013. Also, the Commission indicated that the SCEIS Asset History Report was accurate and complete even though it does not agree with the Commission's internal tracking of capital assets. Depreciation of Buildings and Building Improvements is not consistent between the internal tracking and the Asset History Report. Finally, it was noted that several depreciable assets recorded in previous years were classified as low value assets.

Section 10-1-140 of the South Carolina Code of Laws states, “The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables.”

We recommend the Commission develop and implement procedures to ensure compliance with Section 10-1-140 of the South Carolina Code of Laws, as amended. We also recommend the Commission ensure accuracy of depreciation on the SCEIS Asset History Report through comparison and reconciliation to the Commission’s internal tracking system. The Commission should ensure correction to the Statewide accounting system for any unrecorded asset acquisitions or disposals identified through inventory procedures or for depreciation errors noted through comparison to the Commission’s internal tracking of capital assets. Finally, we recommend the Commission implement procedures to ensure that the instructions of each applicable reporting package are closely followed to ensure accurate financial reporting.

TERMINATION PAY

One of five randomly selected payments to employees that terminated employment revealed an overpayment of \$36. The transaction, processed in SCEIS, resulted in overpayment due to the wrong number of work hours being keyed into the system for the hourly employee’s last pay period. The error was discovered by the Commission after the employee’s employment was terminated and the payment had been made.

Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving a salary from the State which is not due and prohibits persons employed by the State from paying salaries or monies not due to state employees.

We recommend the Commission develop and implement procedures to ensure that payments to employees are accurate and that errors are detected and corrected timely.

INDIRECT COSTS

The Commission did not remit indirect costs to the general fund for the fiscal year 2013. Several significant changes have occurred in recent years, including transition to the new statewide accounting system. Transition and changes have led to miscommunication associated with this process.

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 WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

RECEIPTS

The accountant's comment titled Receipts (Other Weaknesses) reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2012, reported several exceptions including lack of adequate documentation to distinguish restricted from unrestricted contributions and exceptions related to refunds of expenditures not matching or offsetting with the original expenditure.

Our fiscal year 2013 receipts testwork revealed fewer exceptions and fewer occurrences. However, for one of seventeen receipts randomly selected for testing, the documentation supporting a restricted donation was not adequate to distinguish the restriction. In addition, one of the receipts tested was for a refund of a current year expenditure for Medical Services – Individual Professional Surgery (SCEIS Account 5111010014) but was credited to a different expenditure account, Medical Services – Individual Professionals (SCEIS Account 5111010000).

Effective internal controls associated with the recording of receipts include supporting documentation adequate to support the classification as well as an assurance that current year refunds are recorded to offset the original expenditure.

We recommend the Commission continue to implement receipting procedures to help ensure adequate documentation and accurate posting.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The accountant's comment titled Schedule of Federal Financial Assistance reported in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2012, reported several exceptions related to the review of the Schedule including several amounts listed for receipts, expenditures, other additions, other deductions and fund balances that did not agree with the statewide accounting system reports.

The expenditures of one grant on the fiscal year 2013 Schedule did not agree to the SCEIS general ledger. The variance was due to the Commission's inadvertent omission of one transaction and inclusion of another in the expenditures of the schedule.

We recommend the Commission implement procedures to ensure that the Schedule of Federal Financial Assistance is prepared as required and agrees with the Commission's accounting records.

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 Commission for the fiscal year ended June 30, 2012, and dated June 24, 2013. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated Reporting Packages, Receipts (Other Weaknesses), and Schedule of Federal Financial Assistance.

MANAGEMENT'S RESPONSE



South Carolina Commission for the Blind

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Commissioner
James M. Kirby

November 19, 2014

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

RE: AGENCY'S CORRECTIVE ACTION PLAN (FY 2013 AUP AUDIT)

Dear Mr. Gilbert:

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

SECTION A Responses:

Reporting Packages

Operating Leases

Due to a staff vacancy, this schedule was prepared by a different person. We will ensure the schedule is documented so that it is clear that reported payments are on a fiscal year basis and are mathematically correct.

Accounts Payable

Special attention will be given to ensure the SCEIS keying method to flag payables is done correctly.

Loan Receivables

Internal Audit will work with BEP staff to develop a summary reconciliation of the loan subsidiary ledger to the closing package.

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.

Capital Assets

The agency transition from an older inventory system to full use of SCEIS has been challenging, particularly given that agency equipment is on site at numerous blind vendor facilities around the state. Emphasis has been placed on completing the equipment inventory and updating SCEIS. Internal Audit will work with Finance staff on the depreciation issues noted in the audit.

TERMINATION PAY

The need to timely approve hours of employees who are terminating will be reemphasized to supervisors. Internal Audit and HR staff will review for any possible enhancements to current procedures.

INDIRECT COSTS

We will ensure timely remittance of indirect costs.

SECTION B Responses:

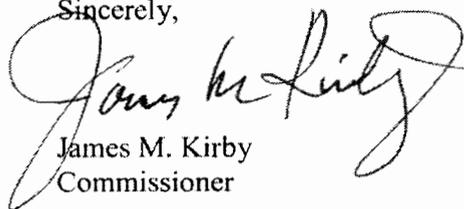
RECEIPTS

The coding of expenditure refunds will be reviewed with staff and supervisory review performed to help prevent errors.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

After the schedule was submitted, additional entries were made in the SCEIS general ledger, resulting in the variance. To prevent this from occurring again, when a final SCEIS general ledger is run, the preparer of the schedule will be notified and the schedule reconciled to the final general ledger. A revised schedule of federal financial assistance will be submitted if necessary.

Sincerely,



James M. Kirby
Commissioner

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