SOUTH CAROLINA COMMISSION FOR THE BLIND

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 6, 1999

The Honorable James H. Hodges, 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, 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 selected 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 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 to determine the reasonableness of recorded revenues by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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, and 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 those on 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 for testing were chosen randomly. Our findings as a result of these procedures are presented in Procurement in the Accountant's Comments section of this report.

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 if the vouchers were properly approved and if 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 those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing recorded current year payroll expenditures to those of the prior year; comparing the percentage change in total personal service expenditures to the percentage change in total employer contributions; comparing the computed percentage distribution of recorded fringe benefit expenditures by fund source to the actual distribution of recorded payroll expenditures by fund source; and comparing estimated fringe benefit expenditures to recorded fringe benefit expenditures to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payroll and Personnel in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries, all operating transfers, and all interagency 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. The journal entries selected for testing were chosen both randomly and judgmentally to include routine, large, and unusual items. 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. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1998, and tested reconciliations of balances at June 30, 1998, 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 these reconciliations, we 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. We judgmentally selected fiscal year-end reconciliations for testing. 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. Our findings as a result of the procedures are presented in Procurement and Personnel and Payroll in the Accountant's Comments section of this report.

8. We reviewed 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, 1996, 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, 1997.] We found no exceptions as a result of the procedures.

9. 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. Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, prepared by the Commission and submitted to the State Auditor. We reviewed 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. 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 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.

Thomas L. Wagner, Jr., CPA
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.

GAAP CLOSING PACKAGES

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that the agency's executive director and finance director are responsible for submitting closing packages that are accurate, complete, completed in accordance with instructions, and timely. In addition, Section 1.9 requires agencies to keep working papers to support each amount on each closing package form. Detailed instructions for completing each closing package are included in the GAAP Manual.

We noted the following exceptions during our review of the Commission's closing packages:

Fixed Assets

The GAAP Manual requires agencies with fixed assets to complete a General Fixed Assets Summary Form (Summary Form) that lists beginning balances for fixed assets, current year additions, current year retirements, and end-of-year balances. In addition, agencies with current year fixed asset additions during the fiscal year must complete the Fixed Asset Additions Reconciliation Form (Reconciliation Form). Detailed instructions for completing the Reconciliation Form are included in Section 3.10 in the GAAP Manual.

In fiscal year 1996, the Commission began a project to replace the existing roof membrane and mechanical roof-mounted units on Building C. The project later expanded to include four buildings; replacing the roofs with sloped, standing seam metal roofs and installing a mechanical system with a central boiler and chiller using four pipe, steam and chill water systems (HVAC). The Commission initially classified project expenditures as maintenance and repair; however, as the project expanded the Commission determined that the roof expenditures should be capitalized as buildings and improvements.

The State Budget and Control (B&C) Board Construction and Planning (C&P) Unit was responsible for engineering oversight and accounts payable for the project. As the project progressed, the Commission remitted incremental budgeted amounts to the B&C Board for payments to vendors. Therefore, the Commission's accounting records do not include actual project expenditures but funds transferred to the B&C Board.

On its closing package, the Commission reported the June 1998 balance on the contractor's application and certification of payment, $634,027, as current year building and improvement additions (roof replacement expenditures). Actual B&C Board expenditures directly related to the roof replacement were $615,845. In addition, portions of $129,256 of professional fees related to both the roof and HVAC portions of the project should have been allocated and capitalized as part of the roof replacement.

The amount reported as current year buildings and improvements additions included expenditures for fiscal years 1996, 1997, and 1998. GAAP requires capitalized expenditures be reported as construction in progress in the fiscal year in which the expenditures are incurred and then reclassified as buildings when the building is substantially complete. The Commission did not report any construction in progress or building additions prior to fiscal year 1998; therefore, fiscal year 1996 and 1997 expenditures should have been reported as net corrections to prior year balances and fiscal year 1998 expenditures as current year additions.

To facilitate proper reporting and classification of expenditures, the Reconciliation Form includes several subparts to be totaled and reconciled to total recorded expenditures. We noted the Reconciliation Form omitted $46,923 of accounts payable and subtotals for Part B.

In addition, the Commission omitted the subpart C amount when it computed and recorded on the Reconciliation Form total fixed asset additions (subparts A, B and C). Despite that error, the Commission entered the correct totals for A, B and C on the Summary Form.

Grant/Entitlement Revenues

The GAAP Manual requires agencies that receive $750,000 or more of grant/entitlement revenues to complete the Grant/Entitlement Revenues Closing Package. The Commission considers two of its grants to be entitlement programs. Section 3.3 of the GAAP Manual states, “Entitlement programs are similar to grants. Entitlement programs, however, base awards on allocation formulas contained in applicable laws. Entitlement programs award specific amounts for particular accounting periods and impose few real restrictions. Once the State receives an entitlement award, only the State’s failure to follow prescribed regulations will cause loss of the funds.” The two grant awards are based on allocation formulas. They contain certain restrictions on the use of the money. If the Commission cannot expend the total award amount, it would not receive it. Therefore, we do not believe the two grants meet the definition of entitlements.

The Commission reported the balance of the unexpended grant award amount as accounts receivable. The method was based on the assumption that the two grant awards are entitlement programs. For other than entitlement programs, the accounts receivable should be the amount expended but not yet reimbursed by the federal grantor. The Commission also failed to report $5,694 in grants receivable related to goods and services received prior to June 30, 1998, and invoices paid in fiscal year 1999.

Total effects of the above errors are that grant receivables are overstated $1,165,786 and deferred revenues are understated $210,199.

Operating Leases

Section 3.19 of the GAAP Manual defines lease terms and contains guidance for completing closing package forms for operating leases. The Commission's Operating Leases Closing Package contained the following errors in the computation of its future net minimum lease payments for noncancelable operating leases with initial or remaining terms at June 30 exceeding one year:

1. Omitted payments for the last 18 months of a lease because an incorrect lease ending date was used.
2. Included payments for a lease with a remaining term at June 30 less than one year.
3. Omitted payments for a noncancelable lease with a remaining term at June 30 exceeding one year.
4. Included a cancelable lease.
5. Included executory costs (sales tax) for 14 copier leases.
6. Failed to correct a clerical error.
7. Included executory costs for one real estate lease.

The errors resulted in net understatements of future operating lease obligations for the following years:

Fiscal year ending	Understated Amount
June 30, 1999	$ 519
June 30, 2000	705
June 30, 2001	25,961
June 30, 2002	21,682
Total	$48,867

The Commission could not locate the office lease for Greenwood for the period February 1, 1998, to December 31, 1998. We believe the lease was correctly omitted in the calculations of future net minimum lease payments.

Cash and Investments and Inventory

The Commission's business enterprise program manages and supervises the vending facility program and carries out the responsibilities of the state licensing agency under the Randolph-Sheppard Act. The program establishes, constructs, equips and maintains vending facilities on suitable public and private sites in order to provide qualified blind individuals with remunerative employment opportunities as licensed blind vendors. As part of the program, the Commission furnishes initial stocks of merchandise and petty cash sufficient to enable the vendor to commence operating the business authorized by the required permit. Because the right, title, and interest in the stock in trade and funds on hand are vested in the Commission, they are assets of the Commission to be returned to the Commission upon termination of the vending agreement.

Section 3.1 of the GAAP Manual states that authorized petty cash accounts should be reported on the Cash and Investments Closing Package. Section 3.6 of the GAAP Manual defines inventory to be reported on the Inventory Closing Package. By definition, inventory includes merchandise for sale to the public, other agencies, or other governments.

Based on GAAP Manual guidance and inquiry with State Comptroller General staff, the Commission should determine if the petty cash is reportable on the Cash and Investments Closing Package or if both petty cash and inventory are considered total stock in trade and reportable on the Inventory Closing Package.

These omissions caused Commission assets to be understated on the closing packages and subsequently on the statewide financial statements. We did not determine the amounts of the Commission's cash and inventory at June 30, 1998.

Recommendations

We recommend the Commission staff completing and reviewing the closing packages thoroughly review the instructions in the GAAP Manual prior to completing the forms each year. Also, we recommend the Commission provide its employees who have responsibilities for closing packages proper and thorough training in closing package guidelines and preparation. All amounts on each form should be supported by working papers in an easily understandable format. As explained in Section 1.8 of the GAAP Manual, the Commission should perform an accurate and thorough review of each closing package to ensure proper completion and accurate reporting to the Comptroller General's Office for the State's general purpose financial statements. We further recommend that the Commission properly classify and record fixed assets; determine from the federal grantors whether any of its grants are entitlements and properly report those on the grant/entitlement revenues closing package; maintain copies of all leases; and properly classify and report assets of the business enterprise program.

PAYROLL AND PERSONNEL

Documentation of Personnel Actions

State Human Resources Regulation 19-708.03.A. states, "Each agency shall maintain an official individual personnel file for each employee which shall include but not necessarily be limited to the following:

1. A copy of the employment application.
2. Copies of all personnel actions reflecting a history of the employee's service.
3. Correspondence directly related to the employee's work record.
4. Copies of all performance appraisals.

The Commission uses the following agency-designed internal forms to support and document personnel actions for each employee, including salary, hire date, and termination date:

- Full-time employees: "SCCB Request for Salary Approval" signed by the executive/division director, the Commissioner, and the Human Resources Director.
- Temporary hourly employees: "A Statement of Employment Conditions" signed by the employee, executive/division director, and the Human Resources Director.
- Terminations: "SCCB Termination" signed by the Human Resources Director.

Personnel files for 22 of the 25 newly hired employees tested did not contain properly completed forms to substantiate an authorized hire date and/or salary. We noted the following types of deficiencies:

1. No form in the personnel file.
2. One or more required signatures missing.
3. No hire date on the form.

Also, for 13 of the 25 terminated employees tested, the "SCCB Termination Form" was either missing or did not include the required signature. Without documentation to support the Commission's authorization of certain personnel actions, we cannot determine the propriety of employees' salaries and state employment dates.

We recommend that the Commission strengthen its existing internal control procedures to ensure that all employees' personnel files include proper documentation to support the authorized salaries, effective dates of personnel actions, and employment dates.

Final Pay

Proviso 72.19. of the 1997-1998 Appropriation Act states, " . . . it is hereby established that the payroll period shall begin on June 2, of the prior fiscal year with the first pay period ending on June 16, of the prior fiscal year. The payroll period shall continue thereafter on a twice-monthly schedule as established by the Budget and Control Board." The State Budget and Control Board established a method of calculating the amount of partial pay when an employee does not work the full pay period or his rate of pay changes during the period as follows: the regular twice-monthly pay rate effective for the applicable pay period is multiplied by the number of hours/days worked in that period divided by total working hours/days in the pay period.

We noted the following findings related to the amount and timing of final pay for 4 of the 25 terminated employees in our test:

1. For one employee underpaid for the six pay periods prior to termination, the Commission paid the total $146 underpayment upon termination. (Total salary paid was correct.)

2. The Commission paid two employees their final pay in the incorrect pay periods. (Total salary paid was correct.)

3. By not using the approved method for computing partial pay, the Commission made a $3 overpayment to one employee. (The Commission used the annualized hourly rate to compute the employee's final pay.)

We recommend that the Commission establish policies and procedures to ensure that it properly calculates all partial payments using the method established by the State Budget and Control Board and processes them in accordance with the legally authorized payroll schedule.

<u>Payment Prior to Hire Date</u>

A former employee's personnel file contained documents to support two hire dates, both January 28 and January 31, 1998. The Commission paid the employee $40 for training on January 25, 1998, prior to either of those hire dates.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State that is not due, and it is unlawful for anyone employed by the State to issue vouchers, checks or otherwise pay salaries that are not due.

We recommend the Commission establish policies and procedures to ensure that employees are paid only for work performed during the employment dates properly documented in their personnel files.

Employer Contributions

Proviso 17F.1. of the 1997-1998 Appropriation Act states, “It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen’s compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency’s employees.”

Analytical tests, including comparison of prior and current fiscal year expenditures, indicated that the percentage increase in personal services costs charged to federal funds was significantly greater than the percentage increase in employer contributions expenditures paid from the Commission’s federal subfund.

Our analysis of estimated social security employer contributions (based on recorded personal services) by fund source to recorded social security employer contribution expenditures reflects unexplained variances in all funds as follows:

Fiscal Year 1998

	State	Earmarked	Federal	Total
Estimated	$130,619	$988	$210,422	$342,029
Actual	127,386	988	205,987	334,361
Variance	$ 3,233	$ -	$ 4,435	$ 7,668

Fiscal Year 1997

	State	Earmarked	Federal	Total
Estimated	$124,472	$1,157	$185,737	$311,366
Actual	115,862	336	188,643	304,841
Variance	$ 8,610	$ 821	$ (2,906)	$ 6,525

Recorded Personal Services Subject to FICA

	State	Earmarked	Federal	Total
1998	$1,707,433	$12,917	$2,750,617	$4,470,966
1997	$1,627,086	$15,125	$2,427,933	$4,070,144

For federal funds for the prior fiscal year, the Commission's recorded (actual) social security employer contribution expenditures exceeded the estimated amount by approximately $2,900. For the current fiscal year, the estimate was approximately $4,400 greater than actual.

The Comptroller General's Office computes social security employer contributions for each semi-monthly payroll and records the amounts as expenditures by the Commission in STARS. An agency can adjust the contributions by fund and/or fiscal year through a journal entry. Some personal services expenditures are not subject to social security tax; therefore, estimated amounts can exceed actual expenditures. However, the reverse cannot be true except for errors or timing differences between fiscal years and funds. Neither we nor the Commission could determine the reason for the $2,900 overpayment in the prior fiscal year. Also, we did not determine whether the Commission charged the proper amounts as social security expenditures to the other funds in fiscal year 1997 or for any of the funds in fiscal year 1998.

We recommend the Commission establish policies and procedures to ensure that it pays the proper share of employer contribution costs for each employee benefit category from the applicable payroll fund source other than State General Fund appropriations. It should also establish internal control procedures to ensure that journal entries processed for changes in fund source for personal services expenditures also include the proportionate share of associated employer contributions.

Support of Salaries and Wages

OMB Circular A-87 Attachment B. Section 11.h. describes the requirements for documentation to support salaries and wages charged to federal funds. Where employees work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period of the certification. Each certification must be prepared at least semi-annually and signed by the employee or his supervisor. When employees work on multiple activities or cost objectives, the distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation.

The Commission uses time distribution reports and payroll certification forms to support salaries and wages charged to federal funds. In our test of payroll, 24 of the 26 employees were funded totally or partially with federal funds. Of the 24 federally-funded employees, we noted the following exceptions regarding salaries and wages documentation:

- For two employees, the percentage distributions between time spent on state and federal activities on the payroll certification forms differed from that for the funding sources charged for the payments.

- The Commission had no time distribution reports for two employees to support wages charged to federal funds for the pay period tested.

- The percentage allocations of time spent by funding source as documented on the time distribution reports for three employees (including one already noted above) differed from those on the Office of Human Resources' records of authorized sources of funds and the actual percentage distributions as paid.

We recommend the Commission establish policies and procedures to ensure that wages and salaries charged to federal awards are properly supported by time distribution reports or payroll certification forms, as appropriate. Employees should be paid by funding source based on time actually spent by activity or cost objective.

PROCUREMENT

Purchase Requisitions

The Commission's procurement procedures require purchase requisitions for all expenditures except travel and direct billings authorized by the Commissioner. Program directors or other designated individuals may approve purchase requisitions less than $2,500. Purchase requisitions for $2,500 or greater require approval by the Commissioner and the Controller.

For 10 of the 32 vouchers in our test of disbursements, the Commission could not locate the purchase requisitions initiating the procurements. The requisition form for one procurement, originally for $1,746, had the required approvals of the Commissioner and Controller. The procurement was later increased to $3,846. However, the change did not have the required approvals of the Commissioner and Controller.

We recommend that the Commission strengthen its existing internal control procedures to ensure that purchase requisitions are completed, properly approved and retained for all procurement transactions for which the Commission's procedures require requisitions.

Timely Payment

Section 11-35-45 (A) of the 1976 South Carolina Code of Laws, as amended, states, "All vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General's office within thirty work days from acceptance of the goods or services and proper invoice."

The Commission did not timely pay 2 of the 32 vouchers in our test of disbursements. For one of the two, the Commission did not receive the invoice timely; it paid that voucher two months after receipt of the invoice (four months after acceptance of the goods). The lag time resulted in payment of goods and services in the subsequent fiscal year from when they were received. The support for the other voucher, a partial payment of $15,729 toward a total procurement of $22,575, did not include a valid receiving date. (See subsection Receiving

Reports in this Procurement comment.) The receiving report, dated February 9, 1998, was for goods invoiced in September 1997 and January 1998. The Commission paid the January invoice in February 1998; however, it did not pay the September invoice until March 1998. There is no documentation explaining the delay. The Commission may have misplaced the original September invoice or, because it did not timely receive it, the Commission requested a copy approximately six months later.

We recommend the Commission establish policies and procedures to ensure that it meets its obligations within 30 days of acceptance of goods or services and receipt of a proper invoice as required by State law. It should monitor unpaid expenditures for goods and services received to ensure that it timely requests and obtains an invoice and promptly prepares and processes a voucher for payment.

Expenditure Object Codes

Comptroller General's Policies and Procedures Manual (STARS Manual) Section 2.1.6.20 lists definitions of approved expenditure object codes. Object code 0520 for reimbursement of meals when traveling in a single day and object code 0501 for reimbursement of meals while on in-state, overnight travel are used to classify subsistence reimbursement for State employees when traveling on official State business. STARS expenditures charged to 0520 are reportable to the Internal Revenue Service (IRS) as taxable; therefore, it is important that an agency charge each meal reimbursement to the correct object code. The Comptroller General's Office uses the agency's reported expenditures to determine the amount reportable on an employee's W-2 form at the end of each calendar year.

Two of the 32 vouchers in our test were for reimbursements of meals while traveling that were charged to incorrect object codes. The two vouchers charged $33 for meals while on overnight travel and $25 for meals when traveling in a single day to object codes 0520 and 0501, respectively. The errors caused erroneous information to be reported to the IRS. The

$33 error was corrected on the employee's travel document but not on the disbursement voucher sent to the Comptroller General's Office for processing.

The employee who received $33 for meals also received an unallowable reimbursement of $5 for breakfast the first day of a three-day trip because the employee departed at 10:45 a.m. Reimbursement for breakfast is allowed by State Regulations for departure times prior to 6:30 a.m.

In our test of journal entries, three were for correction of meal reimbursement object codes and/or allowable reimbursements on vouchers processed and submitted to the Comptroller General's Office for payment. The Commission's controls for voucher processing failed to detect the errors. The Comptroller General's Office changed the coding. The Commission's reconciliations of account balances between its internal accounting records and those in STARS detected the discrepancies. The Commission's internal control procedures do not include detailed review of travel vouchers at the agency level. An employee's supervisor or program director reviews the travel voucher initially. The accounting department performs a cursory review of each travel voucher prior to processing it for payment.

We recommend that the Commission establish internal control policies and procedures to ensure that travel vouchers are properly coded; only qualified travel expenses are reimbursed; and all allowable reimbursements are paid at the proper rates. Procedures should include detail reviews of travel vouchers by the accounts payable department as well as the employee's supervisor. Supervisors and program directors should initially review the travel vouchers for dates, destination, allowable reimbursement amounts, and expenditure object codes. Accounts payable should perform a final detail review of allowable amounts charged and classification by object codes.

Receiving Reports

The Commission requires a completed receiving report for any goods or services received. The requestor is responsible for proper completion of the receiving report and acceptance of goods and/or services, indicated by signing the receiving report. Partial shipments are to be annotated on the receiving report. Upon completion, copies of the receiving report are sent to accounting, purchasing, and the requestor file/client file. Usually, the Commission's receiving reports are computer-generated and computer-dated when initiated; therefore, because each receiving report may not be completed on the actual day of receipt, that report date should not be relied on for determining the actual date goods and/or services were received. The requestor does not always change the date if it is incorrect.

For 6 of the 32 vouchers in our test of disbursements and 8 of the 26 vouchers in our fiscal year expenditure cut-off test, the receiving report dates did not appear to be the actual dates the Commission received the goods and/or services. Also, the Commission prepared six receiving reports for three computers and three monitors all shipped from Texas on the same date per the invoice. We noted that five receiving reports were dated fifteen days after the shipping date and the sixth receiving report was dated 22 days after the shipping date. We did not determine the necessity for six separate receiving reports or the actual date these items were received.

We recommend the Commission establish a procedure requiring the requestor to record the actual receiving date on the receiving report or modify its computer program so that the correct receiving date must be entered on the receiving report. The Commission's internal control activities in accounting should ensure that procurement and receiving documentation is accurate and consistent with vendor billings and voucher payments or that there are explanations of apparent discrepancies in the voucher support.

Procurement Bids

South Carolina Consolidated Procurement Code (the Code) Section 11-35-1550 Authority (2) provides the requirements for competitive bids and quotes for small procurements (not exceeding $25,000). For procurements costing between $1,500 and $5,000, an agency must solicit a minimum of three quotes (verbal or written) and must make the award to the lowest responsive and responsible source. Section 11-35-1524.D (4) of the Code states that the 7% in-state vendor preference does not apply to awards less than $10,000. For one of the 32 vouchers in our test of disbursements, the Commission did not follow Code requirements.

The Commission solicited the three required quotes for a $2,400 procurement and received two responses, one from an in-state vendor. In its evaluation of those bids, the Commission reduced the in-state vendor's bid by a 2% discount for payment within 10 days and by 7% for an in-state vendor preference. The Commission did not receive the 2% discount because it did not pay the invoice within 10 days. Without the reductions for the 2% discount and the 7% preference, the other vendor's bid was lower. By misapplying the Code, the Commission paid approximately $195 in excess of the lower bid.

We recommend that the Commission establish procedures to ensure that its employees who make procurements or who process and review vendor payments are knowledgeable about State procurement laws and regulations. In addition, the Commission should establish policies to ensure that changes in the Code are identified in a timely manner and that appropriate employees are trained in the new requirements.

Fiscal Year-End Procedures

The Commission purchased three minivans in the current fiscal year. The Commission determined the vans arrived at State Fleet Management on June 22, 1998, the invoice date, making the transaction a fiscal year 1998 expenditure. On July 10, 1998, the Commission issued voucher #7023 for $49,923 for payment on the invoice. The check, issued in an incorrect vendor name (name of the company changed) and for the wrong amount, was canceled. Because it was too late to process another voucher in the current fiscal year, the Commission corrected the error in fiscal year 1999 but not until August 19. (See findings already noted regarding timely payment of expenditures.) From Fleet Management's receiving report, we could not determine the date the vans were delivered to/received at the Commission. The date on the Commission's receiving report was July 10, 1998. However, that date does not seem relevant because it appears State Fleet Management was acting as the acceptance agent for the Commission. Furthermore, by charging the initial check to fiscal year 1998 funds, it appears the Commission decided the expenditure was properly chargeable to fiscal year 1998.

Part IB, Proviso 1A.1. of the 1997-1998 Appropriation Act states, "It is the intent of the General Assembly to appropriate all State funds and to authorize and/or appropriate the use of all Federal and other funds for the operations of State agencies and institutions for the current fiscal year."

We recommend that the Commission review its procedures for processing vouchers at fiscal year-end and revise them to ensure that goods and services received on or before June 30 are paid out of current fiscal year appropriations and those received on or after July 1 are paid out of the next fiscal year's appropriations. The Commission should prepare and retain complete documentation (including receiving reports) for all purchases of goods and/or services to support their accounting treatment (e.g., account and fiscal year for the expenditure). Adequate and accurate receiving reports and timely payment are particularly critical at fiscal year-end. (Also, see subsection Receiving Reports and Timely Payment in this Procurement comment.)

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Auditor's Comments section of the State Auditor's Report on the South Carolina Commission for the Blind for the fiscal year ended June 30, 1996, and dated March 28, 1997. [We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 1997.] We determined that the Commission has taken adequate corrective action on the finding regarding cash receipts controls.

MANAGEMENT'S RESPONSE

South Carolina
Commission for the Blind
P.O. BOX 79 • COLUMBIA, SOUTH CAROLINA 29202-0079 • PHONE 898-8822 • FAX 898-8845

May 30, 2000

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have prepared our response to the preliminary draft copy of the agreed-upon procedures audit report for the fiscal year ending June 30, 1998. Your report will provide us with the direction to strengthen internal controls where needed. Our corrective action plan is contained in the response. We look forward to working with you in the future.

Sincerely,

Nell C. Carney

Dr. Nell Carney,
Commissioner

GAAP CLOSING PACKAGES

Fixed Assets

The Fiscal Department staff will show the corrected sum for the capitalization of the roof replacement on the FY 2000 GAAP closing package. The figure for the roof replacement will reflect a reduction for the appropriate portion of professional fees.

Grant/Entitlement Revenues

The Fiscal Department staff has consulted with its federal grantor and determined that the two federal programs are formula grants. The FY 2000 GAAP—Grant/Entitlement Revenues Closing Package will show the corrected totals for grant receivables and deferred revenues.

Operating Leases

During the course of the audit period, the Fiscal Department staff received technical assistance from the State Comptroller General's and the State Auditor's Offices. Staff has accounted for all operating leases and grouped them according to the requirements outlined in the GAAP manual. The FY 2000 GAAP-Operating Lease Closing Package will reflect the corrected figures.

Cash and Investment and Inventory

The Commission for the Blind - Business Enterprise Program (BEP) retains ownership of the initial inventory and petty cash fund established to create a vending stand. A vending stand only requires a petty cash fund when that stand is comprised of vending machines (which are primarily used on highways and vending routes). The Commission staff will consult with the SC Comptroller's Office to determine the manner in which petty cash and inventory of the BEP must be reported on the Cash and Investments Closing Package. The FY 2000 Cash and Investments Closing Package will show the BEP financial information for its vending stand program.

PAYROLL AND PERSONNEL

Documentation of Personnel Actions

Internal controls have been established to ensure that personnel files include the proper documentation as outlined in the Human Resources regulations and appropriate documentation to support any personnel actions taken.

Final Pay

Partial payments are calculated using the established method set by the State Budget and Control Board and are processed according to the payroll schedule.

Payment Prior to Hire Date

Procedures have been established in which the Human Resources Department initiates the offer letter to new hires and establishes a date to complete the necessary paperwork. This strengthens internal procedures on ensuring the paperwork reflects the hire date correctly.

Employer Contributions

The variances in the percentages between personal service and employer contribution expenditures could have resulted from several factors. One factor is the manner in which an employee's salary is split between state and federal funding; the second is the number of grant positions funded; the third is the number of salaries effected by Money-Plus options; and the last is the number of vacancies occurring during the fiscal year.

The Fiscal Department staff will establish policies and procedures to monitor quarterly the cost ratio of expenditures between personal services and employer contributions. Staff also will ensure that the proper share of employer contribution costs for each benefit category is paid from the applicable payroll-funding source other than State General Fund appropriations.

Support of Salaries and Wages

The support of salaries and wages policies and procedures have been established. Efforts and procedures are being strengthened to monitor the accuracy of this information.

PROCUREMENT

Purchase Requisitions

The controller and purchasing director will review the policies and procedures pertaining to processing and approving purchase requisitions and purchase orders and strengthen internal controls where needed.

Timely Payment

The SCCB policy regarding Cash Disbursements/Accounts Payable (No. 8.00) provides staff with direction regarding the timely payment of invoices. The policy stipulates that accounting staff must perform follow-up on outstanding purchase orders and receiving reports to ensure the timely payment for unpaid expenditures of goods and services received. The accounting manager, in the past, has conducted training sessions on the contents of the financial policy manual; she will resume the training sessions to reiterate the policies and procedures of the Commission.

Expenditure Object Codes

The SCCB policy relating to Travel and Subsistence (No. 9.00) stipulates the supervisory review and approval required for the processing of travel support documents. The Account Payable Supervisor does perform a final detail review on all disbursement vouchers for proper coding of the documents. However, the Commission annually processes an extremely large volume (10,000 plus) of invoices.

Receiving Reports

The SCCB policy on the Receipt and Acceptance of Goods and Services (No.7.00) outlines the manner in which staff must prepare receiving reports. Since the audit period, the Fiscal Division staff has modified the receiving report so that the preparation date of form and the date of receipt of services/goods clearly are discernible.

Procurement Bids

The SCCB Fiscal Department will establish procedures to ensure that its employees responsible for the procurement functions stay knowledgeable of State procurement laws and regulations. These staff members participate in the annual procurement conference which keeps them updated regarding changes in the SC Consolidated Procurement Code.

Fiscal Year End Procedures

The SCCB policy with respect to Purchase Cut-Off (Policy No. 8.40) delineates the process for handling year-end transactions. The invoice for the purchase of the minivans was processed in the proper fiscal period. However, a change in the vendor name resulted in the disbursement check having to be reissued in the new fiscal year. It is noteworthy to mention that the invoice was paid from Earmarked funds, which do not lapse to the State General Fund, but rather the State allows the Commission to carry these funds forward.