

SOUTH CAROLINA ARTS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS	5
CASH AND INVESTMENTS CLOSING PACKAGE	6
SECTION B - OTHER WEAKNESS	7
RECEIPTS	8
SECTION C - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S REPOSE	10

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 22, 2008

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Arts Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina Arts Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2007, 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 compared current year recorded revenues at subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigate changes in the general, earmarked, restricted, 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 (\$15 – general fund, \$13,000 – earmarked fund, \$1,000 – restricted fund, and \$9,500 – federal fund) and \pm 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 disbursement 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, restricted 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 (\$34,600 – general fund, \$9,500 – earmarked fund, \$1,500 – restricted fund, and \$10,700 – 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 subfund and major object code level to those of the prior year. We investigate changes in the general, earmarked, restricted 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 (\$34,600 – general fund, \$9,500 – earmarked fund, \$1,500 – restricted fund, and \$10,700 – federal fund) and \pm 10 percent.

- We compared the percentage change in recorded personal service expenditures to 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 5 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 and Appropriation Transfers**

- We inspected selected recorded journal entries 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, 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. **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 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, 2007, 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.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. 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 the Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, 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 finding as a result of these procedures is presented in Cash and Investments Closing Package 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, 2007, 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, 2007, to determine if adequate corrective action has been taken.

We found no exceptions as a result of the procedures.

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 Arts Commission and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION 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 and Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violation of State Laws, Rules and Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

CASH AND INVESTMENTS CLOSING PACKAGE

The Commission reported the authorized balance of its composite reservoir bank account instead of the actual bank balance on its cash and investments closing package.

Section 3.1 of the GAAP Manual requires agencies to report the composite bank balance per the State Treasurer for composite reservoir bank accounts.

We recommend that the Commission personnel responsible for completing and reviewing closing packages review closing package instructions to ensure accurate reporting of closing packages.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

RECEIPTS

The Commission could not provide documentation to support two out of 25 receipt transactions tested in our Test of Cash Receipts. Therefore, we were unable to determine if the receipts were properly classified in the Commission's accounting system.

Effective internal controls include controls to ensure supporting documentation is maintained to support all recorded transactions.

We recommend the Commission establish policies and procedures to ensure that supporting documentation is maintained to support all recorded transactions.

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, 2006, and dated September 12, 2007. We determined that the Commission has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Response to Management Letter Points
FY07 Agreed Upon Procedures
October 28, 2008

Finding Number 1: Cash and Investments Closing Package

When preparing the Cash and Investments Closing Package for 2007, the Commission entered the “authorized” amount of \$500 rather than the “actual” amount of \$372.08 on hand in the petty cash account on June 30, 2007. The Commission agrees with the finding and in turn completed the 2008 closing package using the “actual” amount rather than the “authorized” amount, thereby correcting the process used in preparing our Cash and Investments Closing Package.

Finding Number 2: Receipts

The Commission made 216 bank deposits in 2007. Two deposits, out of twenty five tested, were noted by the State Auditors. The first deposit was an honorarium from Creative Capital Foundation in the amount of \$50. Susan Leonard, an arts coordinator at the Commission, at the request of Creative Capital, assisted in identifying independent film makers in South Carolina, who in turn may be considered to receive funding from Creative Capital. Creative Capital, using private funding, assists independent artists in various disciplines. The Commission will ensure, when such honorariums are received in the future, that additional information explaining the nature of the honorarium accompanies the deposit.

The second deposit was a reimbursement to the Commission in the amount of \$325.96 for cell phone usage. The Commission’s Executive Director has an agency assigned cell phone, due to being on call while away from the office. Annually our Director reimburses the Commission for the total of monthly charges that exceed the base amount. The base amount would be for the monthly block of minutes. In the future, the Commission will attach adequate documentation.

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.