

SOUTH CAROLINA ARTS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 1, 1999

The Honorable James H. Hodges, 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 the South Carolina Arts Commission, 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 collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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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 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. We found no exceptions as a result of the procedures.
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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Final Pay at Termination of Employment in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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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 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 they were accurate and complete. For the selected 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. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
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 finding as a result of these procedures is described in procedure six.
8. We reviewed the status of the deficiencies described in 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, 1997, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Final Pay at Termination of Employment in the Accountant's Comments section of this report.
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. We found no exceptions as a result of the procedures.
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.

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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 Arts Commission 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.

FINAL PAY AT TERMINATION OF EMPLOYMENT

In our test of personnel and payroll records for the fourteen employees who terminated employment with the Commission, we found that an employee who terminated in May 1998 was underpaid \$5,405 because his annual leave payment was calculated for 39 hours rather than his actual annual leave balance of 39 days (292.5 hours). The Department had already discovered the error and paid the employee on the June 1, 1999 payroll.

Our reports on the Commission for fiscal years 1997 and 1995 (We applied no procedures to the Commission's records for fiscal year 1996.) identified problems in final pay calculations and recommended that the Commission strengthen procedures over payroll computations and include independent verification of pay calculations for partial pay periods and final paychecks. In its response to our comment in the fiscal year 1995 report, the Commission stated:

SCAC will implement its existing policy of having the Human Resource Department and the Accounting Department process each payroll independent of each other, and compare the results, correcting any differences prior to submitting to the Comptroller General via Senior Accountant.

In reviewing the status of the deficiency noted in our fiscal year 1997 report, we determined that the Human Resource and Accounting Departments still did not independently compare payroll information during fiscal year 1998. We were told, however, that the Commission implemented this procedure in fiscal year 1999 but oftentimes the comparison of payroll information was performed after the payroll was sent to the Comptroller General for processing.

Again, we recommend that the Commission strengthen procedures over payroll computations and include independent verification (by someone other than the preparer) of pay calculations for partial pay periods and for final paychecks (e.g., comparison with supporting documentation for hours worked, termination date, annual leave balance, and pay

rate). Also, the Commission should evaluate the effectiveness of its current stated policy for verifying the accuracy of payroll information and, as applicable, develop procedures that will ensure the timely detection and correction of errors.

RECONCILIATIONS

We selected the Commission's fiscal months (FM) 04, 10, and 13 reconciliations for fiscal year 1998 and determined that the Commission did not reconcile general fund cash for FM10 and FM13. Upon further investigation, we found that general fund cash reconciliations were not performed for FM07 through FM13. In addition, the FM04 general fund cash reconciliation for October was prepared and reviewed, but not until March 1998. Yet we determined that revenue and expenditure reconciliations for all funds were performed timely for the selected months. When we asked why the general fund cash reconciliations weren't timely prepared in fiscal year 1998, we were told that the person responsible for preparing them either fell behind in the preparation of reconciliations or forgot to prepare them.

Our finding on reconciliations reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 1997, dealt with inadequate preparation and review of reconciliations.

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires agencies to perform monthly reconciliations of revenues, expenditures, and cash balances to facilitate prompt error detection and correction. Such reconciliations must be performed on a timely basis, documented in writing with supporting work papers, and independently reviewed and approved.

We recommend the Commission adhere to the STARS Manual reconciliation procedures to ensure that all monthly reconciliations, including those for cash accounts, are performed in a timely manner. Also, the person responsible for reviewing the reconciliations should ensure that reconciliations are both timely prepared and reviewed.

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 South Carolina Arts Commission for the fiscal year ended June 30, 1997, and dated March 31, 1998. We determined that the Commission has taken adequate corrective action on each of the findings except that described in Final Pay at Termination of Employment which we have repeated in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

South Carolina Arts Commission
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Columbia, South Carolina 29201-3585
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August 19, 1999

Mr. Tom Wagner
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29211

Dear Mr. Wagner:

I have reviewed the preliminary draft copy of the Fiscal Year 98 agreed-upon procedures on behalf of the South Carolina Arts Commission. After review of the Auditor's Report the Arts Commission agrees with the recommendations made by the State Auditors, will take corrective actions to implement audit findings immediately, and is authorizing release of the report. Please insert our responses after each audit recommendation.

1. **AUDIT RECOMMENDATION:** We recommend that the Commission strengthen procedures over payroll computations and include independent verification (by someone other than the preparer) of pay calculations for partial pay periods and for final paychecks (e.g., comparison with supporting documentation for hours worked, termination date, annual leave balance, and pay rate). Also, the Commission should evaluate the effectiveness of its current stated policy for verifying the accuracy of payroll information and, as applicable, develop procedures that will ensure the timely detection and correction of errors.

SCAC RESPONSE: We have a policy in place and shall implement the existing policy of having the Human Resource Department and the Accounting Department process each payroll independent of each other, and compare the results, correcting any differences prior to submitting to the Comptroller General via Senior Accountant.

2. **AUDIT RECOMMENDATION:** We recommend the Commission adhere to the STARS Manual reconciliation procedures to ensure that all monthly reconciliations, including those for cash accounts, are performed in a timely manner. Also, the person responsible for reviewing the reconciliations should ensure that reconciliations are both timely prepared and reviewed.

SCAC RESPONSE: We have a policy in place and shall continue to implement Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual). We have also reinforced to the responsible staff the importance of preparing the cash reconciliation on a timely basis.

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On behalf of the Arts Commission and our staff, I would like to thank the State Auditors for their guidance in recommending improvements to the Commission's financial management system.

Sincerely,

Suzette M. Surkamer
Executive Director