

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA STATE MUSEUM

June 30, 2013

State of South Carolina



Office of the State Auditor

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May 15, 2014

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

This report on the application of certain agreed-upon procedures to the accounting records of the South Carolina State Museum for the fiscal year ended June 30, 2013, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/cwc

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June 30, 2013

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 8, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina State Museum (the "Agency"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2013, in the areas addressed. The Agency'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 earmarked funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed upon a materiality level of \$11,000 and ± 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented in the Timeliness of Receipts section of 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 Agency, 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 and earmarked funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$10,000 – general fund and \$13,000 – earmarked fund) and ± 10 percent.

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

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, 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 paycheck 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 and earmarked funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$10,000 – general fund and \$13,000 – earmarked 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 haphazardly. We found no exceptions as a result of the procedures.

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 haphazardly. We found no exceptions as a result of the procedures.

5. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2013 and inspected selected reconciliations of balances in the Agency's accounting records to those reflected on the State Treasurer's Office monthly 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 Agency's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records.

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.

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 Agency, 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.

There were no receipt or disbursement transactions processed during the fiscal year. The reconciliations selected were chosen haphazardly. Our finding as a result of these procedures is presented in the Reconciliations of Composite Reservoir Account in the Accountants' Comments section of this report.

6. Appropriation Act

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

We found no exceptions as a result of the procedures.

7. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General’s GAAP Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Status of Prior Finding

- We inquired about the status of the findings reported in the Accountant’s Comments section of the State Auditor’s Report on the Agency resulting from the engagement for the fiscal year ended June 30, 2011, to determine if the Agency had taken corrective action. We applied no procedures to the Agency’s accounting records and internal controls for the year ended June 30, 2012.

We found no exceptions as a result of these 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, the governing body and management of the South Carolina State Museum, and State Auditor and is not intended to be and should not be used by anyone other than the specified parties.

The Hobbs Group, P.A.
The Hobbs Group, PA
Columbia, South Carolina

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

TIMELINESS OF RECEIPTS

In our testing of cash receipt transactions, we noted one transaction out of twenty-five was not deposited in a timely manner. Management questioned whether the receipt was due to the Agency which resulted in the deposit not being made within two weeks of receipt.

Section 89.1 of the Appropriations Act requires that “state revenues...must be remitted to the State Treasurer at least once each week, when practical.”

The above practice increases the possibility of loss or theft of cash. It also could impact management decisions because accounting transactions are not recorded timely in the Agency’s accounting records. We recommend that the Agency implement internal control procedures to ensure that funds are deposited in the bank and posted to the accounting system in a timely manner.

SECTION B – OTHER WEAKNESSES

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

RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNT

We reviewed the reconciliation at year end and one other month during the year of the Agency's composite reservoir account. During our review of these reconciliations, we noted the reconciliations were not reviewed and approved by management nor were the reconciliations dated to determine if the reconciliation was prepared in a timely manner. The review and approval was not performed due to the account having no activity during the year. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is signed and dated by the preparer and management noting approval provides evidence of the existence of an internal control that is designed to detect errors.

We recommend the Agency implement procedures to require a review and approval of reconciliations as well as both the preparer and the reviewer signing and dating the reconciliations.

STAMPING OF INVOICES

We noted fourteen out of the twenty five disbursements selected for testing were not stamped to indicate the date the invoice was received by the Agency due to oversight by staff. We were unable to determine the length of time between the receipt of the invoices, recording of invoices and the payment of invoice, thus we were unable to determine if the invoices were handled timely. A sound system of internal controls includes policies to ensure that all transactions are recorded in a timely manner.

We recommend the personnel responsible for invoices review and follow the procedures the Agency has in place in order to ensure timely recording to the general ledger and subsequent payment.

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 Agency for the fiscal year ended June 30, 2011, and dated May 30, 2012. We applied no procedures to the Agency’s accounting records and internal controls for the year ended June 30, 2012. We determined that the Agency has taken adequate action on each of the findings.

MANAGEMENT'S RESPONSE

Attachment A

**H95 MUSEUM COMMISSION
MANAGEMENT REPOSONES FOR FY13 AUDIT FINDINGS**

TIMELINESS OF RECEIPTS

In our testing of cash receipt transactions, we noted one transaction out of twenty-five was not deposited in a timely manner. Management questioned whether the receipt was due to the Agency which resulted in the deposit not made within two weeks of receipt.

Section 89.1 of the Appropriations Act requires that “state revenues...must be remitted to the State Treasurer at least once each week, when practical, and must be credited, unless otherwise directed by law, to the General Fund of the state.”

The above practices increases the possibility of loss or theft of cash. It also could impact management decisions because accounting transactions are not recorded timely in the Agency’s accounting records. We recommend that the Commission implement internal control procedures to ensure that funds are deposited in the bank and posted to the accounting system in a timely manner.

MANAGEMENTS REPONSE

The museum concurs with the Auditors recommendation.

RECONCILIATIONS OF COMPOSITE RESERVOIR ACCOUNT

We reviewed the reconciliation at year end and one other month during the year of the Agency’s composite reservoir account. During our review of these reconciliations, we noted the reconciliations were not reviewed and approved by management nor were the reconciliations dated to determine if the reconciliation was prepared in a timely manner. The review and approval was not performed as no activity occurred within the account. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is signed and dated by the preparer and management noting approval provides evidence of the existence of an internal control that is designed to detect errors.

We recommend the Agency implement procedures to require a review and approval of reconciliations as well as both the preparer and the reviewer signing and dating the reconciliations.

MANAGEMENTS REPONSE

The museum concurs with the Auditors recommendation.

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We recommend the personnel responsible for invoices review and follow the procedures the Agency has in place in order to ensure timely recording to the general ledger and subsequent payment.

MANAGEMENTS REPONSE

The museum concurs with the Auditors recommendation.