

**SOUTH CAROLINA MUSEUM COMMISSION**  
**COLUMBIA, SOUTH CAROLINA**  
**STATE AUDITOR'S REPORT**  
**JUNE 30, 2014**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 14, 2015

The Honorable Nikki R. Haley, Governor  
and  
Members of the Commission  
South Carolina Museum 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 Museum Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2014, 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 twenty-five 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 twenty-five 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 fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on an agreed upon materiality level of \$60,700 and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected twenty-five 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 (\$24,600 – general fund and \$91,200 – earmarked 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 twenty-five 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; and 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 five selected new employees and five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general 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 (\$24,600 – general fund and \$91,200 – earmarked fund) and  $\pm 10$  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  $\pm 10$  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 twenty-five selected recorded journal entries and one interagency appropriation transfer 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 journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2014, and inspected all reconciliations of balances in the Commission'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 Commission'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 Commission's accounting records.

*Non-Payroll Disbursements and Expenditures*

- We inspected all recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected all recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

All reconciliations and disbursements were selected. We found no exceptions as a result of the procedures.

6. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor  
and  
Members of the Commission  
South Carolina Museum Commission  
May 14, 2015

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

Our findings as a result of these procedures are presented in Reporting Packages and Capital Assets Subsidiary Ledger in the Accountant's Comments section of this report.

8. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Commission had taken corrective action.

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 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 - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

## **REPORTING PACKAGES**

### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Commission submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared or misstated. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors casts doubt on the ability of the State's internal controls to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Section 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. Preparation and maintenance of working papers is a primary responsibility of each agency. The following describes the errors noted on certain fiscal year 2014 reporting packages:

## Operating Leases

We noted during our review of the Master Reporting Checklist the Commission did not prepare an Operating Leases Reporting Package. Based on our review of the SCEIS Operating Lease Expense Report, we determined the Commission had operating lease expenditures that should have been reported and therefore an Operating Leases Reporting Package should have been prepared and submitted to the Comptroller General's Office.

Commission personnel stated they did not prepare the reporting package because they did not have any noncancelable lease payments during the year.

## Capital Assets

The Commission reported outstanding construction commitments of \$7,730,910 in the Capital Assets Reporting Package which did not agree to our calculation of \$6,197,427. The difference (\$1,533,483) is equal to the construction costs incurred in fiscal years ended June 30, 2012 and 2013. The Commission did not account for these construction costs when calculating the outstanding construction commitments.

Commission personnel stated the error was due to oversight.

## Recommendation

We recommend the Commission strengthen its procedures to ensure that reporting packages are completed when applicable and in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

## **CAPITAL ASSETS SUBSIDIARY LEDGER**

The Capital Assets Reporting Package specified that all assets included in the agency's subsidiary ledger were physically on hand. Upon inquiry of Commission personnel we discovered that the Commission had disposed of all but one asset listed on the agency's subsidiary ledger. The Commission could not provide documentation to support the disposal of these assets.

Commission personnel stated that they were unaware that assets needed to be removed from SCEIS after they had been disposed of since the assets no longer held value.

Effective internal controls include procedures to ensure that supporting documentation is maintained for all asset disposals and that subsidiary ledgers are reconciled and reviewed for accuracy. In addition, the Comptroller General's Reporting Policies and Procedures Manual Part III Section 8, states, "The State reports the removal of the book value and accumulated depreciation of a capital asset from its financial statements in the fiscal year of the retirement."

We recommend the Commission strengthen its procedures to ensure that asset disposals are supported by original source documentation and reconciled to SCEIS.

## **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 Commission for the fiscal year ended June 30, 2013, and dated May 15, 2014. We determined that the Commission has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**

June 10, 2015

Office of the State Auditor  
Richard H. Gilbert, Jr., CPA  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert,

Thank you for the opportunity to review and respond to your report on the agreed upon procedures to the accounting records of the State Museum for the year ended June 30, 2014. A review of the preliminary draft has been made and discussed with staff. Provided below are our comments to each of the findings in the Management's Response section of the report.

**Reporting Package - Operating Leases:**

Due to oversight, the Agency did not submit an Operating Lease Expense Report for the fiscal year. In the future every effort will be made to ensure all closing packages are prepared and filed with the Comptroller General's Office.

**Reporting Package- Capital Assets:**

Due to corrections of balances made by the State Budget Office in the two previous fiscal years, the incorrect construction commitment balance was reported for FY14. Every effort will be made to ensure the correct balance for construction commitments is used in future fiscal years.

**Capital Assets Subsidiary Ledger**

Updated procedures and internal controls will be implemented to ensure that capital assets are reviewed and reconciled at the end of the fiscal year including asset disposals.

With the review of findings complete, I authorize the release of the report for the SC Museum Commission Fiscal Year ended June 30, 2014.

Sincerely,



William P. Calloway  
Executive Director

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