

**SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 12, 2015

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Department of Archives and History
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Archives and History (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, in the areas addressed. The Department'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 sixteen 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, 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 (\$10,300 – earmarked fund and \$9,600 – federal fund) and ± 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 Department, 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 fourteen 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, 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 (\$22,700 – general fund, \$10,800 – earmarked fund, and \$9,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in General Ledger Account Classification in the Accountant's Comments section of this report.

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; 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, 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 (\$22,700 – general fund, \$10,800 – earmarked fund, and \$9,600 – federal 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 randomly. Our finding as a result of these procedures is presented in Calculation of Pay in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected twelve 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. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department'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.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Department 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

Our findings as a result of these procedures are presented in Miscellaneous Revenues Reporting Package and Petty Cash in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, prepared by the Department 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.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Department of Archives and History
March 12, 2015

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 Department resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

Our finding as a result of these procedures is presented in General Ledger Account Classification in the Accountant's Comments section of this report.

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 Department of Archives and History 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.

GENERAL LEDGER ACCOUNT CLASSIFICATION

During our test of expenditures we noted the Department recorded the purchase of five computers to account number 503006001 (Data Process Supplies – Minor Equipment) instead of account number 5200530000 (Data Process Equipment – Non-Cap). In addition, the Department recorded three payments to Ontario Investments for a monthly copier lease to account number 5040050000 (Rental-Contingent Rental Payments) instead of account number 50040020000 (Rent – Copying Equipment). Finance personnel stated they did not have access to account number 5200530000 and did not know they could contact the SCEIS team to gain access. Also, we were told that the miscoding of the monthly copier rental payment was due to human error.

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Office Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent accounting treatment.

We recommend the Department strengthen its internal controls over the recording of financial transactions. The Department should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

CALCULATION OF PAY

The Department miscalculated an employee's pay for two out of twenty-five employees tested. One employee was overpaid \$3. According to the employee's timesheet, the employee worked 36.75 hours during the pay period; however, the employee was paid for 37 hours worked. Another employee was underpaid by \$2,391. A review of documentation in the employee's personnel file and in SCEIS, documented that the employee received a pay

increase of \$2.50 per hour effective October 2, 2013. However, the increase was not input into SCEIS. The Department corrected the error subsequent to our field work.

A well-designed and effective internal control system includes independent reviews of employee timesheets and employee pay calculations. In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due.

We recommend the Department develop and implement procedures to ensure that payments to employees are correctly calculated. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to source documentation and information posted in SCEIS.

MISCELLANEOUS REVENUES REPORTING PACKAGE

During our review of the Miscellaneous Revenues Reporting Package, we determined the Department overstated its reported accounts receivable by \$222. According to Department personnel, test transactions had been entered into SCEIS and weren't subsequently deleted. These transactions should not have been reported as receivables on the year end SCEIS report. We also noted the Department did not report whether its receivables were current or non-current. We determined the Department should have reported current receivables of \$2,194 and non-current receivables of \$913.

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting package and/or financial statements that are: Accurate and prepared in accordance with instruction, complete, and timely."

We recommend the Department develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

SECTION B - OTHER WEAKNESS

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

PETTY CASH

The Department has a petty cash account of \$225. We learned through inquiry that the Department's fiscal analyst performs both the petty cash count and approves the count. A calculator tape is maintained to document the count; however it is not signed or dated by the preparer or an approver.

A strong system of internal controls includes procedures to ensure that there is proper segregation of duties and documentation of reconciliations of cash on hand being performed and properly approved.

We recommend the Department implement procedures to ensure that reconciliations of the petty cash fund are properly documented and independently reviewed. We also recommend the Department periodically perform surprise counts of the petty cash account to ensure that the cash on hand reconciles with the authorized balance.

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 Department for the fiscal year ended June 30, 2013, and dated September 15, 2014. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated the finding General Ledger Account and Sub-Fund in Section A as General Ledger Account Classification.

MANAGEMENT'S RESPONSE



April 14, 2015

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert,

Please allow this letter to serve as the agency's response to the preliminary draft copy of the report resulting from our performance of agreed-upon procedures relative to the Accounting records of the South Carolina Department of Archives and History for the Fiscal year ended June 30, 2014. Our response relates to the following findings:

1) General Ledger Account Classification

With regards to the two instances in which the Department recorded expenditures to an incorrect general ledger account, the agency has implemented additional procedures to reduce future instances of recording errors. These procedures include the Finance Manager reviewing accounting transactions on a more frequent basis to ensure that the person responsible for entering the account information is doing so properly.

2) Calculation of Pay

With regards to the agency miscalculating pay for two employees, the agency has corrected the error and established procedures that will ensure that payments to employees are correctly calculated. These procedures will include the periodic independent review of payroll calculations to ensure that the calculations are correct and correctly posted to SCEIS.

3) Miscellaneous Revenues Reporting Package

With regards to the agency overstating its reported accounts receivable by \$222, this agency has removed the test transactions that originated from the period when the agency first adopted SCEIS and resulted in this overage. In regards to the agency not reporting its receivables as current or non-current, the agency has developed procedures regarding future reporting, which will clearly categorize receivables as current or non-current.

4) Petty Cash

With regards to the petty cash count, proper segregation of duties, and documentation or reconciliations, this agency will adopt procedures to ensure that the reconciliations of petty cash are properly documented and independently reviewed. These procedures will include periodic surprise counts of the petty cash account to ensure that the amount on hand reconciles with the authorized balance.

The South Carolina Department of Archives and History has acted upon the auditors' recommendations, and we are working to prevent future instances of the issues listed above. We would like to compliment and thank Mr. Edward J. Tustin and the members of the audit team for their professionalism and diligence during this process.

This letter concludes our review of the preliminary draft copy, and you have our permission to release the report at your earliest convenience. Attached is a list of our current commissioners and their addresses. Thank you for your assistance, and please let me know if we may answer any questions.

Best regards,

A handwritten signature in cursive script that reads "W. Eric Emerson".

W. Eric Emerson, Ph.D.
Director and SHPO

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