

**SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 8, 2017

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, 2015, 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 Department's policies and procedures and State regulations.
- We inspected eighteen 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 general, earmarked and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$0 – general fund, \$10,000 – earmarked fund, and \$9,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in the comment titled Accounts Receivable Write-Offs in the Accountant's Comments section of this report.

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 Department'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 eleven 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 and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$27,600 – general fund, \$9,900 – earmarked fund, and \$9,800 – 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 Coding in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected six selected employees' personnel records to determine if the selected employees' disbursements were properly described, classified, and distributed in the accounting records; they were bona fide employees; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Department'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 Department'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 and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$27,600 – general fund, \$9,900 – earmarked fund, and \$9,800 – 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 Department's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected five selected recorded journal entries and all 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 Department'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 Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and Department 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, 2015, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

Our finding as a result of these procedures is presented in Prepaid Expense Reporting Package 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, 2015, 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.

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, 2014, to determine if the Department had taken corrective action.

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

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 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.



George L. Kennedy, III, CPA
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.

ACCOUNTS RECEIVABLE WRITE-OFFS

Condition:

During our analytical review of cash receipts and revenues, we noted \$16,225 of accounts receivable from fiscal year 2014 and earlier which were written off as reversals of fiscal year 2015 revenue.

Cause:

Department oversight.

Effect:

The Department's fiscal year 2015 revenue was understated by \$16,225.

Criteria:

The Comptroller General's expenditure account descriptions states that General Ledger account number 5836010000 "Bad Debt Expense – A/R" is to be used to record expenditures for accounts receivable bad debt.

Recommendation:

We recommend the Department implement policies and procedures to ensure that accounts receivable write-offs are properly reported.

Management's Response:

In regards to this finding, the agency will create procedures that ensure that future bad debt is recorded using the General Ledger account number 5836010000 "Bad Debt Expense-A/R."

GENERAL LEDGER ACCOUNT CODING

Condition:

During our non-payroll disbursements testing, we noted two disbursements tested were refunds that were improperly coded as increases to general ledger account 5033150000 (Purchase Resale-Consignment Goods) instead of decreases to GL Account 4480010000 (Sale of Goods). Each sale was made in fiscal year 2015. The total of the transactions in question was \$464.

In the initial transactions, general ledger account 4480010000 (Sale of Goods) was credited for the amount of revenue for each transaction. When a refund transaction occurs in the same fiscal year, a debit to general ledger account 4480010000 is necessary to accurately reflect the correct revenue general ledger account balance for fiscal year 2015.

Cause:

Department oversight.

Effect:

The Department's 5033150000 and 4480010000 accounts were both overstated by \$464 for fiscal year 2015.

Criteria:

The Comptroller General's Office Policies and Procedures include specific definitions for coding transactions to the proper revenue and expenditure accounts.

Recommendation:

We recommend the Department develop and implement policies and procedures to ensure that payment of refunds are posted to the correct revenue general ledger account.

Management's Response:

In response to this finding, the agency has developed procedures to prevent future instances of refunds being posted incorrectly to the revenue general ledger account. These include the creation of a new Gift Shop Return Form to account for returned merchandise, which will be conveyed to Finance as back-up to ensure that the revenue account, and not the expenditure account, is debited when merchandise is returned.

TEMPORARY EMPLOYEE

Condition:

During our payroll disbursements testing, we noted one employee was a temporary employee that remained on the payroll for more than twelve consecutive months.

Cause:

The Department's workload for this employee was behind schedule. Therefore, they did not have the required break in service.

Effect:

The Department is not in compliance with State Human Resources Regulations.

Criteria:

State Human Resources Regulations define a temporary employee as a full-time or part-time employee who does not occupy an FTE position, whose employment is not to exceed one year, and who is not a covered employee.

Recommendation:

We recommend the Department develop policies and procedures to maintain temporary employees as defined in the State Human Resources Regulations.

Management's Response:

In response to this finding, the agency has developed procedures to preclude temporary employees from exceeding the one-year term of continuous employment. These procedures include monthly assessments of every temporary employee to confirm the length of their uninterrupted service.

PREPAID EXPENSE REPORTING PACKAGE

Condition:

While inspecting supporting documentation for the Prepaid Expense Reporting Package, we noted that the Department reported Prepaid Expenses with a period of benefit occurring in fiscal year 2016 as non-current as opposed to current. Also, cash outlays made during fiscal year 2015 where the period of benefit was during the same fiscal year were reported as current prepaid expenses.

Cause:

Department oversight.

Effect:

The Department's June 30, 2015 current prepaid expense balance was overstated by \$13,176 and the non-current prepaid expense balance was overstated by \$11,869.

Criteria:

Section 7 of the Comptroller General's Reporting Policies and Procedures Manual states in part: Information should be obtained, analyzed and determination be made of the current portion (the portion of the future benefit to be realized within the next fiscal year) and the non-current portion (the portion of the future benefit to be realized beyond the next fiscal year) of the asset for proper reporting... Agencies may exclude everything under \$10,000 up to \$100,000 in aggregate from this reporting package.

Recommendation:

We recommend the Department implement policies and procedures to ensure that prepaid expenses at June 30 are reported accurately and the reporting package is completed according to Comptroller General instructions.

Management's Response:

In response to this finding, the agency is developing procedures to help prevent future occurrences of the inaccurate reporting of prepaid expenses on the reporting package.

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 Department for the fiscal year ended June 30, 2014, and dated March 12, 2015. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated General Ledger Account Classification/Coding.

2 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$2.80. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.