

**SOUTH CAROLINA ARTS COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2016**

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South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

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

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December 6, 2016

The Honorable Nikki R. Haley, 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 (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2016, 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 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 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, 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 (\$3,000 – earmarked fund, \$12,700 – restricted fund, and \$10,700 – federal fund) 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 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 (\$27,000 – general fund, \$3,000 – earmarked fund, \$11,500 – restricted fund, and \$11,400 – federal fund) and  $\pm 10$  percent.
- We inspected ten selected recorded procurement card transactions to determine if these transactions were purchased by an authorized cardholder user and are reasonable based upon the cardholder's position; monthly purchase summaries were submitted along with receipts and signed by supervisor and employee; and the single transaction limit was not exceeded with no indication of transaction splitting.

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 all new employees and all 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 (\$27,000 – general fund, \$3,000 – earmarked fund, \$11,500 – restricted fund, and \$11,400 – federal 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.
- We inspected all bonus pay disbursements to determine that the selected bonus did not exceed \$3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than \$100,000.
- We inspected five selected bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations Act to determine that the bonuses were paid in accordance with State regulations.

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

4. **Journal Entries and Interagency Appropriation Transfers**

- We inspected six selected recorded journal entries and all interagency 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 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 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.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2016, 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 Asset Capitalization 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, 2016, prepared by the Commission 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 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 Commission 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 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.



George L. Kennedy, III, CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

## **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**

### **Condition:**

We noted the following during our testing of the Commission's reporting packages:

- 1) On Form 3.09.1 (Operating Leases Summary Form – Lessee) the Commission incorrectly reported contingent rental payments of \$6,979 as other adjustments.
- 2) On Form 3.04.1 (Other Receivables Summary Form) the Commission incorrectly reported a grants receivable totaling \$106,374 as an other receivable.

### **Cause:**

Commission personnel stated they were provided inaccurate guidance concerning the preparation of the reporting packages.

### **Effect:**

- 1) Contingent rental payments were understated and other adjustments were overstated by \$6,979 on Form 3.09.1.
- 2) Current net receivables were overstated by \$106,374 on Form 3.04.1.

### **Criteria:**

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 packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely".

In addition, Section 3 of the Comptroller General's Reporting Policies and Procedures Manual requires grant receivables to be reported on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.03.1).

### **Recommendation:**

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

### **Management's Response:**

The Commission will continue to work with the Comptroller General's office regarding the preparation of reporting packages.

## **ASSET CAPITALIZATION**

### **Condition:**

During our Test of Asset Acquisitions, we noted the Commission incorrectly capitalized three assets that did not meet the state's minimum capitalization threshold.

### **Cause:**

The Commission misunderstood instructions given by SCEIS personnel regarding the capitalization of these assets.

### **Effect:**

The Commission was not in compliance with the Comptroller General's policies and procedures. The Commission's capital assets were overstated.

### **Criteria:**

Section \_\_.8 of the Comptroller General's Reporting Policies and Procedures Manual provides the capitalization criteria for capital assets.

### **Recommendation:**

We recommend the Commission strengthen its procedures to ensure assets are properly capitalized in accordance with the Comptroller General's Reporting Policies and Procedures Manual. The Commission should also make the appropriate adjustments for the assets in question.

### **Management's Response:**

The Commission will continue to work the Department of Administration regarding the correct process for capitalization of assets; additionally the Commission will make adjustments to the assets in question.

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