

**SOUTH CAROLINA MUSEUM COMMISSION**  
**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

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

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July 6, 2016

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, 2015, 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 agreed upon materiality level (\$26,300 – earmarked 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-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 (\$29,800 – general fund and \$35,400 – 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 nine selected new employees and eight 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 inspected five selected 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 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 (\$29,800 – general fund and \$35,400 – 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 Interagency Appropriation/Cash Transfers**

- We inspected five selected recorded journal entries and two 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. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2015, and inspected four selected 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 two 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 two selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

We selected all reconciliations for testing. 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.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 Operating Leases Reporting Package 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, 2014, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Operating Leases Reporting Package 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 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.

The Honorable Nikki R. Haley, Governor  
and  
Members of the Commission  
South Carolina Museum Commission  
July 6, 2016

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.



George L. Kennedy, III, CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

**SECTION A - VIOLATION 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.

## **OPERATING LEASES REPORTING PACKAGE**

### **Condition:**

We noted the following during our testing of the Commission's fiscal year 2015 Operating Leases Reporting Package:

1. On Form 3.09.1 (Operating Leases Summary Form – Lessee), the Commission incorrectly reported Payments for Supplies and Other Billing Charges as Contingent Rental Payments. Additionally, the Commission did not properly record several rental expenses as Other Adjustments.
2. On Form 3.09.1a (Operating Leases Future Minimum Payment Schedule), the Commission inaccurately reported the effective dates for two leased copiers on the Operating leases Future Minimum Payments Schedule. Additionally, the Commission misreported the periodic minimum payment for one copier due to the inclusion of a one-time rental payment. Finally, the Commission included payments for leases that were not required to be reported on this form and that should have been reported as Other Adjustments in Part 1 of Form 3.09.
3. The Commission coded reimbursement received from its blockbuster exhibits that was reimbursed to the Museum Foundation to GL Account 5040490000 (Rent-Other) (The Foundation pays for these leased exhibits). Since this reimbursement was made on a contingent basis, it should be coded to GL Account 5040050000 (Rental-Contingent Rental Payments). We noted the Commission reported the reimbursement as a contingent rental on the reporting package but coded it differently in SCEIS.

### **Cause:**

- 1&2. Commission personnel stated the reporting package was incomplete or incorrect due to employee error.
3. Commission personnel stated this error was due to inconsistent guidance.

### **Effect:**

1. On Form 3.09.1, the total expense for Contingent Rental Payments was overstated by \$1,505; Payments for Supplies and Other Billing Charges was understated by \$1,505; the required minimum lease payments for operating leases was overstated by \$8,940; and Other Adjustments was understated by \$8,940.
2. On Form 3.09.1a, Future Minimum Lease Payments was overstated by \$153 in 2016 and 2017, understated by \$7,388 in 2018, and understated by \$4,925 in 2019. Additionally, the total current expense reported on the Operating Leases Future Minimum Payment Schedule was overstated by \$8 940.
3. GL Account 5040490000 (Rent-Other) was overstated by \$166,463. GL Account 5040050000 (Rental-Contingent Rental Payments) was understated by \$166,463.

**Criteria:**

Section 1.7 of the Comptroller General's Year-End Reporting Package 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, effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent accounting treatment.

**Recommendation:**

We recommend the Commission strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the CG's Policies and Procedures Manual. Commission personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors. Also, we recommend the Commission strengthen its internal controls over the recording of financial transactions. The Commission should ensure that the person performing the independent review of accounting transactions verify that the proper account coding was used.

**Management's Response:**

*Reporting Package - Operating Leases*

Comments 1 & 2:

The agency will adopt the Auditor's recommendation to strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General's Policies and Procedures Manual.

Comment 3:

The agency will also adopt the Auditor's recommendation to strengthen its internal controls over the recording of financial transactions.

## **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, 2014, and dated May 14, 2015. In response to our inquiries, we were told that the Commission is in the process of taking corrective action on the deficiency titled Capital Assets Ledger. However, because the procedures will be implemented after June 30, 2015, we did not perform tests of the new procedures. We also determined the Commission took corrective action on the deficiency titled Reporting Packages; however we noted an additional deficiency which will be reported in a similar finding titled Operating Leases Reporting Package in Section A of the report.

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