SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT
JUNE 30, 2006
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INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 14, 2007

The Honorable Mark Sanford, Governor
and
Members of the Commission
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, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2006, 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 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 and to determine that revenue collection and retention or remittance were supported by law.
   - We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State’s accounting system (STARS) as reflected on the Comptroller General’s reports to determine if recorded revenues were in agreement.
   - We compared current year recorded revenues at the subfund and object code 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 ($1,638 – general fund, $20,972 – earmarked fund, and $10,782 – federal fund) and ± 10 percent.
The individual transactions selected were chosen randomly. Our finding as a result of the procedures is presented in Accounting for Federal Funds in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**
   - We inspected 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 and to determine if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
   - We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
   - We compared current year expenditures at the subfund and major object code 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 ($29,373 – general fund, $21,002 – earmarked fund, and $10,612 – federal fund) and ± 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 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, including employee payroll deductions, 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 selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
   - We inspected payroll transactions for all new employees and those 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
   - We compared current year payroll expenditures at the subfund and major object code 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 ($29,373 – general fund, $21,002 – earmarked fund, and $10,612 – 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 ± 5% to ensure that payroll expenditures were classified properly in the Department’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 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 journal entries selected were chosen randomly. We found no exceptions as a result of the procedures.

5. General Ledger and Subsidiary Ledgers
• We inspected selected entries and monthly totals in the subsidiary records of Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Department’s policies and procedures and State regulations.

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

6. Reconciliations
• We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Department’s accounting records to those in STARS as reflected on the Comptroller General’s 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 Department’s general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department’s accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant’s Comments section of this report.
7. **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 and agency specific provisos.

   Our finding as a result of these procedures is presented in Accounting for Federal Funds in the Accountant’s Comments section of this report.

8. **Closing Packages**  
   • We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

   We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**  
   • We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, 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 and if the amounts agreed with the supporting workpapers and accounting records.

   Our finding as a result of these procedures is presented in Accounting for Federal Funds in the Accountant’s Comments section of this report.

10. **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, 2004, to determine if the Department had taken corrective action. (We applied no procedures to the Department’s accounting records and internal controls for the year ended June 30, 2005.)

    Our findings as a result of these procedures are presented in Reconciliations and Accounting for Federal Funds 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 - VIOLATION OF STATE LAWS, RULES OR REGULATIONS

Management of the 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 Department 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.
RECONCILIATIONS

The Comptroller General’s STARS Policies and Procedures Manual describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the Department’s accounting records and those in the State’s accounting system (STARS) as reflected on the Comptroller General’s reports “…prove significant assurances that transactions are processed correctly both in the agency’s accounting system and in STARS and that balances presented in the State’s Comprehensive Annual Report are proper. To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be…

- Reviewed and approved in writing by an appropriate agency official other than the preparer.”

We reviewed fiscal year 2006 reconciliations in detail and noted that none of the reconciliations were signed and dated by an appropriate agency official other than the preparer.

A similar deficiency in the preparation of reconciliations was described in our fiscal years 1999 through 2004 reports. (We did not perform procedures for fiscal year 2005.)

We again recommend the Department develop and implement policies and procedures to ensure that its reconciliations for cash, revenues, expenditures, and federal funds are reviewed and approved in writing by an appropriate agency official other than the preparer.
ACCOUNTING FOR FEDERAL FUNDS

The Department did not maintain separate accounting for all financial activity associated with the Historic Preservation Fund (HPF) grant (CFDA 15.904) in the State’s accounting records. The Department accounts for this grant in an earmarked subfund rather than in a federal subfund. Therefore, the financial activity for this grant was omitted from the Department-prepared Schedule of Federal Financial Assistance (SFFA). The Department did, however, disclose in a note to the SFFA revenue received applicable to the grant.

Prior to 1986, the Department received reimbursement from the federal grantor for the State’s match. This reimbursement was recorded as revenue to the State General Fund. In 1986, the Department received the authority to retain the State match reimbursement with the adoption of proviso 35.3 (current proviso 15.2). Since 1986, the Department has recorded all of the financial activity associated with the State and federal match in the earmarked subfund instead of recognizing the portion applicable to the federal share in the federal subfund.

With regard to accounting for federal funds, South Carolina Code of Laws, Section 11-9-125 states: “…In order to permit identification of these funds, state agencies shall …

(2) maintain separate accounting records for each grant for cash, revenues, and expenditures to insure a proper audit trail.”

In addition, the Comptroller General’s STARS Policies and Procedures Manual (STARS Manual) instructs agencies to report accounts associated with funds received from the federal government, either directly or as an allocation from another agency in the 5xxx series (i.e. federal funds).
We recommend that the Department follow State law and STARS Manual requirements to properly account for its HPF grant funds. Such accounting should include recording the federal share of expenditures and the associated federal draw revenue in the 5xxx series subfund and reimbursing cash and reducing State expenditures by the amount of federal reimbursement in the general or earmarked subfund as appropriate. This will allow the Department to use the reimbursed funds as nonfederal matching for future HPF grant work. Finally, the Department should include the HPF grant activity on the SFFA.
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, 2004, and dated November 28, 2005. (We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2005.) We determined that the Department has not taken adequate corrective action on each of the findings and we have repeated these findings.
MANAGEMENT’S RESPONSE
April 26, 2007

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

Dear Mr. Gilbert:

In response to a recent report issued by your office on the audit of agreed-upon procedures of the accounting records of the South Carolina Department of Archives and History for the fiscal year ended June 30, 2006, we would like to address the findings.

RECONCILIATIONS: All reconciliations were prepared in an accurate and timely manner. Our accounting staff consists of 3 people who each have a part in preparing reconciliation documents. The documents are shared automated files that make it difficult to separate the preparer and reviewer, but it was decided at the conclusion of the audit that it will be acceptable for the staff to review and sign each others' parts of the documents.

ACCOUNTING FOR FEDERAL FUNDS: Although funds to operated the federally mandated historic preservation program has been deposited into an earmarked account (authorized by Section 35.3 of the Appropriation Act in 1989) the revenue has been recognized as "federal" and the Schedules of Federal Financial Assistance were footnoted, it is the opinion of the State Comptroller General as well as the State Auditor's Office, that the program should be operated from a federal account.

The agency attempted initiating a plan to comply with the audit finding last year, but the logistics associated with compliance to the audit finding are difficult. During the Audit Exit Conference, the S.A.O. staff did not have a solution to the accounting transactions associated with the desired result. As of this date, we have not found a good solution that would satisfy all parties. However, we will continue the endeavor and will again attempt to comply.

Our review is complete and you have permission to release the report at your earliest convenience. Attached are a list of current commissioners and their addresses.

Yours very truly,

Rodger E. Stroup, Ph.D.
Director

S.C. Department of Archives & History + 8301 Parklane Road + Columbia + South Carolina + 29223-4905 + 803-896-6100 + www.state.sc.us/scdah
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