

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

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 19, 2009

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 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, 2008, 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 agency's policies and procedures and State regulations.
- 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 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 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$1,500 – general fund, \$16,500 – earmarked fund, and \$8,200 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these 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 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 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 minor 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$38,000 – general fund, \$15,400 – earmarked fund, and \$8,000 – federal fund) and ± 10 percent.

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

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 agency'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 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 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 minor 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$38,000 – general fund, \$15,400 – earmarked fund, and \$8,000 – 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 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 Annual Leave Pay in the Accountant's Comments section of this report.

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

- We inspected 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 transactions 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 the 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 agency'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, 2008, 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 finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **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 and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, 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.

Our finding as a result of these procedures is presented in Object Code in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008 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.

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

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Department of Archives and History
February 19, 2009

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, 2008, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Accounting for Federal Funds and Reconciliations 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.

ACCOUNTING FOR FEDERAL FUNDS

During our testing, we determined that the Department accounted for the Historic Preservation Fund (HPF) grant (CFDA 15.904) and the Teaching American History in South Carolina (TAH) grant (CFDA 84.215) in an earmarked subfund rather than in a federal subfund. Therefore, the financial activity for these grants were omitted from the Department prepared Schedule of Federal Financial Assistance (SFFA). With regard to the HPF grant, the Department did not maintain separate accounting for all financial activity in the State's accounting records. 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's 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. The HPF grant finding has been a repeat finding since fiscal year 1999 (except that we did not perform procedures for fiscal year 2005).

The Department had accounted for the TAH grant in a federal subfund in the prior year. In fiscal year 2008, upon notification by the State Budget Office, the Department began accounting for the grant in the earmarked subfund. The State Budget Office, which approved the grant classification in the prior year, notified the Department that it believed the grant should be accounted for in an earmarked subfund because the grant came from Richland County School District One rather than directly from the federal grantor. Based on this advice the Department began accounting for the federal fiscal year 2008 TAH grant in an earmarked subfund.

We evaluated the relationship between the Department and Richland County School District One and determined that the Department should account for the TAH grant in a federal subfund based on the following factors:

1. The Department was the original applicant for the grant award but the federal grantor required that the money flow through an educational entity. The Department contacted Richland County School District One who then applied for the grant and passed the grant funds to the Department.
2. The Department is responsible for complying with the terms of the grant including reporting requirements.
3. The Department contacted Richland County School District One during the engagement to clarify the relationship. The District considers the Department a subrecipient of federal funds and not a vendor.

The accounting treatment of the fiscal year 2008 TAH grant is inconsistent with the Department's accounting treatment of the fiscal year 2007 TAH grant because the Department accounted for the 2008 TAH grant in an earmarked subfund but continued to account for the 2007 TAH grant in a federal subfund.

South Carolina Code of Laws, Section 11-9-125 states: "...In order to permit identification for federal 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 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). Further, generally accepted accounting principles (GAAP) require that transactions be accounted for consistently.

We recommend that the Department follow State Law and STARS Manual requirements to properly account for its HPF and TAH grant funds. The Department should contact the State Budget Office to change the grant funding source to federal. We also recommend that the Department implement procedures to ensure that it properly accounts for federal funds. If it is unsure whether there is a vendor or subrecipient relationship it should obtain written clarification from the payor. Finally, the Department should include the activities for both grants on the SFFA.

ANNUAL LEAVE PAY

We performed a test of employees who terminated employment to ensure that their final pay was properly calculated. We found that the Department used an employee's full-time equivalent pay rate to calculate his annual leave pay instead of using his longevity pay rate.

The Office of Human Resources webpage "Annual Leave FAQs" states "The annual leave payout should be calculated based on the employee's final rate of pay, including longevity, temporary salary adjustments, or any other pay that the employee is receiving at the time of separation."

We recommend that the Department implement policies and procedures to ensure that an employee's annual leave pay calculation is based upon the appropriate rate at the time of separation. The Department should also reimburse the former employee the difference between the amount earned and the amount paid.

OBJECT CODE

During our test of the capital assets additions reconciliation closing package, we noted that the Department recorded purchases which did not meet the agency's capitalization threshold using object code 06XX. The Department correctly deducted these purchases on its reconciliation since the items cost less than the capitalization threshold. However, these

purchases should have been charged to object code 5XXX since 06XX is to be used only for items costing more than the capitalization threshold.

The Comptroller General's Policies and Procedures Manual (STARS Manual) requires that all purchases of items of equipment, vehicles, and works of arts and historical treasures costing less than \$5,000 be coded with object codes from the 5XXX series.

We recommend that the Department carefully review invoices to ensure that expenditures are charged to the correct object codes as defined in the STARS Manual based on the cost of the individual items.

RECONCILIATIONS

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on Comptroller General reports "...provide significant assurance 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 Financial Report are proper."

To ensure adequate error detection and to satisfy audit requirements, the State requires agencies to perform monthly reconciliations of cash, revenues, and expenditures. Such reconciliations must be:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

We noted the following deficiencies in the Department's reconciliation procedures:

1. Cash, revenue, and expenditure reconciliations for fiscal months 01 through 05, 08, and 09 were not prepared in a timely manner.
2. Federal grants reconciliations for fiscal months 01 through 08, and 10 were not prepared in a timely manner.
3. Reconciliations for fiscal months 11, 12, and 13 were not signed and dated by the reviewer.

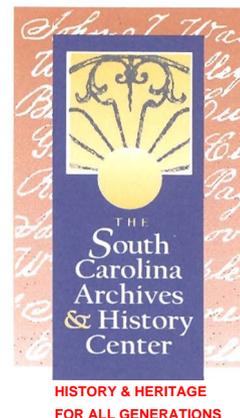
We recommend that the Department comply with the STARS Manual by implementing procedures to ensure that reconciliations are prepared and reviewed on a timely basis and that all reconciliations are signed and dated by the reviewer.

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, 2007, and dated April 10, 2008. We determined that the Department has not taken adequate corrective action on each of the findings and we have repeated the findings in Section A of this report.

MANAGEMENT'S RESPONSE

April 24, 2009



Dear Mr. Gilbert:

Please allow this communique to serve as response to your preliminary draft of the audit report resulting from our performance of agreed-upon procedures relative to the accounting records of the South Carolina Department of Archives & History for the Fiscal year ended June 30, 2008. We would like to address the following findings:

With regards to reconciliations not being timely prepared, the agency was short staffed by one employee for 8 months during the fiscal year. We are now fully staffed and procedures have been implemented to timely prepare, properly review and sign all reconciliations.

With regards to the Teaching American History Grant, we attempted to resolve the issue of funds deposited in a non-federal account. We intend to have our deposits for FY 10 deposited in a federal account as well as expenditures.

State Grant Fund: Although funds to operate the federally-mandated Historic Preservation Program has been deposited into an earmarked account (authorized by section 35.3 of the Appropriation Act in 1988-89) the revenue has been recognized as "federal" and the Schedule of Federal Financial Assistance were footnoted to indicate this; it is the opinion of the State Comptroller General, as well as the State Auditors' Office, that the program should be operated from a federal account. We wish to fully Comply with your findings, if feasible.

We appreciate the great job that you all did in rendering services during the audit of the Department's records for FY 08.

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

Sincerely,

Rodger E. Stroup, Ph.D.

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