

SOUTH CAROLINA ARTS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 12, 2014

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, 2013, 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 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 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 (\$3,200 – earmarked fund, \$0.00 – restricted fund, and \$11,500 – 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 Classification 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 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 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 (\$19,400 – general fund, \$1,000 – earmarked fund, and \$11,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in General Ledger Account Classification and Supporting Documentation 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 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 selected 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 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 (\$19,400 – general fund, \$1,000 – earmarked fund, and \$11,600 – 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 agency's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, one (100%) operating transfer, and two (100%) 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 and agency specific provisos.

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, 2013, 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 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, 2013, 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.

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 South Carolina Arts Commission resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012.

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

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Arts Commission
September 12, 2014

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 Arts Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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.

GENERAL LEDGER ACCOUNT CLASSIFICATION

During our testing of receipt transactions, we noted the Commission coded a reimbursement for a baggage fee to 5050510000 (Out of State Meals-Non-Reportable) instead of 5050530000 (Out of State – Air Trans) and also coded another revenue transaction for an online artist roster application fee to 4530030000 (Miscellaneous Revenue) instead of 4110020000 (Miscellaneous Fee). Commission personnel stated the coding errors were due to human error.

Also during our cut-off test of expenditures, we noted the Commission improperly coded a subscription to SurveyMonkey, an online web survey company, to 5020070000 (Data Process Services – Other) instead of 5030010004 (Office Supplies). In addition we noted a state grant allocation to the Governor's School of the Arts was coded to 518080000 (Aid Private Sector) instead of 518070000 (Aid State Agencies). Commission personnel stated the payment to SurveyMonkey was not considered a subscription and that the allocation was coded in error.

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Office Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent accounting treatment.

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 preparer used the proper account code.

REPORTING PACKAGES

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 package and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely." Our testing of the Commission's reporting packages disclosed the following exceptions:

General Errors

We noted the Commission responded incorrectly and/or omitted responses on the following reporting packages: Master, Compensated Absences, Capital Assets, Cash, and Subsequent Events. Commission personnel stated the errors were a result of a misinterpretation of the reporting package instructions.

Grants and Contribution Revenue Reporting Package

We determined that the Commission overstated its current receivable balance by \$1,213. The Commission reported a receivable balance of \$25,696 on the Grants Activity Form and \$26,909 on the Grants Receivable and Deferred Revenue Form. The Commission should have carried the \$25,696 balance reported on the Grants Activity Form to the Grants Receivable and Deferred Revenue Form .

Operating Lease Reporting Package

From our review of the Commission's lease agreements in effect during fiscal year 2013, we determined all of the leases were cancelable and therefore the Commission was not required to submit this reporting package. As a result, current rent expense was overstated by \$2,236.

Timely Submission

The Commission did not submit all reporting packages timely. We determined the Prepaid Expense Reporting Package was submitted one day after the due date.

Recommendation

We recommend the Commission develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

SECTION B - OTHER WEAKNESS

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 while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SUPPORTING DOCUMENTATION

The Commission could not provide adequate supporting documentation for one expenditure transaction selected for testing. The transaction was a payment to the U.S. Postal Service for bulk mail services. No invoice or receipt was maintained by the Commission and no reconciliation of the postage/bulk mail account was performed to support the amount paid.

An effective system of internal controls includes controls to ensure that accounting transactions are adequately supported by source documentation.

We recommend the Commission implement procedures to ensure that all accounting transactions processed through the accounting system are supported by source documentation.

SECTION C - 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, 2011, and dated June 4, 2012. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012. We determined that the Commission has taken adequate corrective action on the deficiency titled Receipts. However, we determined the deficiency titled Reporting Package still exists; consequently, we have repeated a similar finding in Section A of the report.

MANAGEMENT'S RESPONSE

Section A – Violations

General Ledger Account Classification: We concur with this finding and will monitor codes more closely and inquire with Comptroller General’s office if there is uncertainty.

Reporting Packages:

- General Errors: We concur with these findings and will rely on guidance from the Comptroller General’s office through their revised written guidelines and staff advisement.
- Grants and Contribution Revenue: We concur with this finding
- Operating Lease: We concur with this finding
- Timely Submission: We do not concur with this finding. All agency closing packages were submitted in a timely manner. As we explained to auditors, the prepaid expense closing package was accidentally dated Saturday 8/31/13 instead of Friday 8/30/13, which was the actual date of submission.

The Commission will develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General’s Office Reporting Policies and Procedures Manual and form instructions.

Section B – Other Weakness

Supporting Documentation: We concur with this finding and have implemented procedures to ensure that all accounting transactions processed through the accounting system are supported by source documentation.

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.32. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.