

**SOUTH CAROLINA MUSEUM COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 18, 2003

The Honorable Mark Sanford, 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, 2002, 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year to test the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Receipt of Revenue, and Record Retention in the Accountant's Comments section of this report.

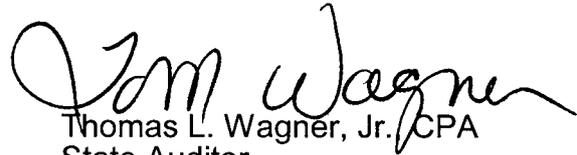
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control and Record Retention in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control and Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual journal entry transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Commission 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 the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2002, and tested selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 STARS 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 and/or in STARS. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2002. Our findings as a result of these procedures are presented in Rental Charges, Inventory of Personal Property and Supplemental Salary in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in 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, 2001, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section A in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Commission and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, prepared by the Commission and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Museum Commission
September 18, 2003

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


Thomas L. Wagner, Jr. CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A – 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, 2001, and dated September 26, 2002. We determined that the Commission has taken adequate corrective action on the finding regarding appropriation transfers. We determined the other deficiencies described in our prior report still exist; consequently, we have repeated similar findings in Section B herein:

Reconciliations

GAAP Closing Packages

Payroll

Schedule of Federal Financial Assistance

Receipt of Revenue

Rental Charges

Record Retention

SECTION B - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules or Regulations.

INTERNAL CONTROL

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. One component of internal control is control activities, which includes operating policies and procedures which are clearly written and communicated. Policies and procedures should address the processing of accounting transactions, physical controls, segregation of duties, and identification of changes in laws, rules and regulations that affect the agency.

During the fiscal year 2002 agreed-upon procedures engagement, Commission staff were unable to describe the agency's control activities and provide us with updates of policies and procedures regarding cash, cash receipts and revenue, and payroll/personnel transactions. The Controller terminated employment during the engagement, leaving an accounting staff that consisted of two temporary employees, neither of whom worked for the Commission during fiscal year 2002, and therefore were not knowledgeable about the policies and procedures which were in place during fiscal year 2002.

We also performed various analytical procedures during the fiscal year 2002 engagement. We compared fiscal year 2002 revenues and expenditures recorded by fund and object code in STARS to those of the prior year to test the reasonableness of amounts collected, paid and recorded by revenue and expenditure accounts. Further, we 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The Commission was unable to provide explanations for the significant revenue and expenditure variances and provided an incomplete explanation for the payroll variance, we believe, as a result of employee turnover described above.

We recommend the Commission cross train employees so that staff are aware and knowledgeable of the Commission's control policies and procedures. Additionally, management should monitor expected results with actual results continually to ensure that the accounting system includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision-making.

RECONCILIATIONS

In our fiscal year 1992 through 2001 reports we stated that the Commission failed to properly perform monthly reconciliations of balances in its internal accounting system and those in the State's system (STARS) for all funds and for all months. The Commission performed monthly reconciliations of revenues and expenditures for July 2001 through May 2002. However, the majority of the reconciliations were not performed or reviewed in a timely manner and many of the revenue reconciliations were not signed or dated by the reviewer or the preparer. Also, the Commission did not perform monthly revenue and expenditure reconciliations for June 2002 (fiscal month 12) and July 2002 (fiscal month 13). Furthermore, cash balances and federal funds grant/phase balances were not reconciled during fiscal year 2002. We compared year-to-date revenues, expenditures, and ending cash balances in SABAR, the Commission's internal accounting system, to those reported in STARS and identified several differences between the Commission's accounting records and STARS.

The Commission has written procedures regarding the requirement for and performance of monthly reconciliations; however, they were not followed in fiscal year 2002. Furthermore, some federal funds balances on the agency's schedule of federal financial assistance differed from those in SABAR and/or in STARS. Because the agency did not reconcile the account balances from each source, differences were not identified and timely corrected in the appropriate accounting records.

The Commission is not in compliance with the reconciliation procedures for error detection and correction required by Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS Manual). This section of the manual requires agencies to have clearly documented, written reconciliations for revenues, expenditures, and cash balances by fund which are prepared timely and signed and dated by the preparer and are independently reviewed and approved (evidenced by signature and date). The STARS manual also requires that errors discovered in the reconciliation process be promptly corrected in SABAR and/or in STARS as appropriate.

Further, Section 11-9-125 of the 1976 South Carolina Code of Laws, as amended, states that state agencies must reconcile federal and other fund accounts at the end of each state fiscal year and maintain those records for audit purposes.

We recommend that the Commission prepare, document, and review reconciliations at the prescribed level of detail for all required accounts and correct detected errors in accordance with STARS Manual guidelines. Each monthly reconciliation should be performed by a knowledgeable employee in a timely manner and independently reviewed and approved by a responsible supervisory employee.

GAAP CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to use in preparing the State's financial statements. We determined that the Commission submitted to the Comptroller General certain incorrectly prepared and/or misstated fiscal year-end 2002 closing packages.

To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states, "Each agency's executive director and finance director are responsible for submitting . . . closing package forms . . . that are: •Accurate and completed in accordance with instructions. •Complete. •Timely." Also, Section 1.7 requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. In addition, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

The following outlines the errors noted on certain 2002 closing packages.

Capital Assets

Commission personnel could not locate the fiscal year 2002 closing package and therefore requested a copy from the State Comptroller General. Additionally, as in fiscal years 2001, 2000, 1999 and 1998, the Commission had not prepared, updated, and retained supporting documentation for each amount on each capital assets closing package form for the ending capital assets balance. Further, the Commission had not prepared a detailed listing of equipment. Therefore, we could not agree the \$136,594 ending balance to a subsidiary ledger and could not determine whether the balance reported on the closing package was

accurate. Also, the closing package was not submitted to the Comptroller General in a timely manner. The closing package was due September 30, 2002 but was not submitted until October 28, 2002. Finally, we noted the closing package was prepared and approved by the Controller.

Sections 3.8 through 3.11 of the GAAP Manual provides guidance for agencies reporting capital assets transactions and balances in closing packages. In addition, an effective internal control system requires that adequate supporting documentation be prepared and retained and financial and related information be properly recorded in the accounting and other agency records and be properly summarized in reports prepared therefrom.

Compensated Absences

During our review of the fiscal year 2002 compensated absences closing package, we noted that overtime compensatory hours recorded on the Commission's Compensatory and Holiday Leave Liability Report did not agree to amounts reported on the individual's leave records for two out of six employees tested. According to the individual leave records, neither employee had accrued overtime compensatory time as of June 30, 2002. The total overtime compensatory liability reported for these employees totaled \$1,023. In addition, the Commission reported 54 employees [expressed in full-time equivalents (FTE)] earning annual leave as of June 30. However, the Commission's year-end annual leave liability report had an employee count of 43.

GAAP Manual Section 3.17 includes instructions that require retention of working papers supporting all information entered on the compensated absences closing package. Section 3.17 also defines employees earning annual leave as the agency's total employees earning annual leave, regardless of funding source and regardless of whether these employees are full-time or part-time workers.

Inventory

The Commission reported a balance of \$238,239 in merchandise inventory on its fiscal year 2002 Inventory Summary Form. However, the Commission did not report the supply inventory balance on the form as had been done in previous years. According to Commission personnel, supplies were not inventoried at fiscal year-end because of a shortage in staff.

GAAP Manual Section 3.6 instructs agencies to take a physical count of inventories on hand at the end of each fiscal year, and complete the Inventory Summary Form if the computed value of inventory on hand at the end of the fiscal year is \$100,000 or more.

Recommendations

We continue to recommend that the Commission implement procedures to ensure that all future closing packages contain accurate and complete information in accordance with the GAAP Manual instructions. As required by the GAAP Manual, the Commission's closing package procedures should include an effective independent review before submitting the forms to the Comptroller General. Each closing package review at a minimum should include: determining the accuracy and adequacy of documentation prepared, retaining and cross-referencing source documentation that supports each closing package response (monetary and other); determining the reasonableness of each closing package response; agreeing each response to the closing package worksheets and other supporting documentation and to the accounting and other source records; verifying the methodology and formulas used in the supporting documentation and the computations in the working papers and on the closing package; and completing the applicable Closing Package Reviewer Checklist. We also continue to recommend that the Commission properly prepare a detail equipment listing and establish procedures to ensure equipment records are updated and maintained accurately thereafter. Further, we recommend the Commission perform an annual inventory of supplies and maintain documentation of this inventory.

PAYROLL

Pay Schedule

Proviso 72.24. of Part IB of the 2001-2002 Appropriation Act provides for a regular and permanent schedule for payment of employees and states, “. . . it is hereby established that the payroll period shall begin on June 2, of the prior fiscal year with the first pay period ending on June 16. . . The payroll period shall continue thereafter on a twice-monthly schedule as established by the Budget and Control Board.” The proviso also authorizes the State Budget and Control Board “to approve any changes to this schedule where circumstances are deemed justifiable.” [The Appropriation Act for each fiscal year contains a similar proviso.]

The Commission did not adhere to the State’s “regular and permanent schedule for payment of employees” for specified twice-monthly payroll work periods when paying some employees. We tested personnel/payroll transactions and controls for 25 transactions in a standard payroll test, and 25 employees each in a termination test and a new hire test. For one payment in the standard payroll test, two payments in the termination test, and four payments in the new hire test, the employees were paid on the wrong State pay date. In six of the seven exceptions, employees did not submit timesheets to Human Resources in a timely manner. In the other exception, the timesheet was submitted timely; however, Commission personnel could not explain why the employee was not paid timely. A similar finding was reported for fiscal year 2001.

We again recommend the Commission revise its procedures to ensure that it pays all of its employees in accordance with the State’s established payroll period/paydate schedule. Controls should be in place to ensure that transactions are properly and timely processed and to detect and correct errors and inconsistencies in a timely manner. Employees should be adequately trained to ensure that they promptly and accurately notify the appropriate department of all personnel transactions including forwarding timesheets.

Authorizations for Payroll Deductions

For three out of the 25 payroll transactions tested in our standard test of payroll transactions, the Commission could not provide adequate documentation of the employees' authorizations for all payroll withholdings and deductions. (We reported similar findings for fiscal years 2001, 2000, 1999 and 1998.) The Commission does not have written procedures regarding the filing and maintenance of employee authorizations for payroll withholdings and deductions.

Sound accounting controls require supporting documentation to be obtained, retained, and filed in an orderly manner to support all recorded transactions. We again recommend that the Commission develop and implement a written file maintenance plan which covers the creation and filing of all documents, as well as the ongoing maintenance and control of files and their contents including temporary removal of the files or of information from the files (e.g., use of document sign-out forms) to ensure that documents can be located and retrieved by authorized users when needed regardless of turnover in the positions of the employees assigned responsibility for the files and their contents.

Calculation of Pay

The Commission miscalculated final pay in two of the 25 termination transactions tested, initial pay in one of 25 new hire transactions tested, and regular pay in one of 25 standard payroll transactions tested, resulting in overpayments of \$103, and underpayments totaling \$25. Also during our standard test of payroll, we determined the Commission underpaid one employee by \$237 between September 2001 and October 2002. The employee received a 0.5 percent merit raise effective September 17, 2001, according to the individual's employee profile; however, this increase was never reflected in the employee's pay. (The employee terminated employment with the Commission on October 1, 2002.)

Further during our test of terminations, it appeared that the Commission underpaid accrued compensatory leave for one employee by 8 hours or \$69. Similar findings regarding the calculation of pay were reported for fiscal years 2001, 2000, 1999 and 1998.

A well-designed and an effective internal control system includes maintenance of accurate and complete information in personnel and payroll files; procedures for the payroll preparer to obtain information for payroll calculations from source records such as timesheets and employee profiles; and independent review of payroll calculations (including initial, final, and partial pay) and verification of support documentation used in those calculations.

In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive a salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine and/or imprisonment.

We again recommend the Commission implement controls to ensure that payments to employees are calculated correctly. We also recommend that the Commission strengthen procedures to require the independent reviewer to check the mathematical accuracy of the calculations and trace each component to the supporting documentation. The reviewer should sign and date the documents to show that the information used has been properly reviewed.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To prepare the annual Statewide Single Audit Report, the Office of the State Auditor requires each State agency receiving federal funds to prepare and submit a schedule of federal financial assistance containing all of its federal funds. During our review of the schedule and our comparison of the federal fund amounts on the Commission's fiscal year 2002 schedule to those in SABAR and STARS, we noted the following deficiencies due to inadequate controls over the preparation and reconciliation of the schedule of federal financial assistance:

- Account balances reported in SABAR, STARS, and the schedule of federal financial assistance were different and the Commission could not explain the cause for the differences.
- The Commission had not reconciled individual federal project and phase code balances in SABAR to those in STARS using the CSA 467CM – Trial Balance by Subfund, Project, and GLA report.
- The Commission could not provide supporting documentation for the “Access to the Arts for All” grant (a new grant for fiscal year 2002) or for amounts reported for the “IMLS General Operating Support” grants.
- Grants with ending balances on the fiscal year 2001 schedule (Friends in Aid and Afterschool Programs Coalition) were not reported on the fiscal year 2002 schedule. Management stated that amounts reported for the grants were revised, resulting in zero ending balances. However, the Commission was unable to provide documentation or explain why the revisions were necessary.

Our 2001, 2000, 1999, and 1998 reports described the deficiency relating to the Commission’s failure to reconcile amounts on the schedule of federal financial assistance to amounts in the Commission’s internal accounting system and STARS.

The Office of the State Auditor’s letter of instructions provides agencies with guidance and instructions for preparation of accurate and complete federal schedules. Section (B) of attachment 1 of the fiscal year 2002 instructions for completing the agencies’ schedules of federal financial assistance states, “The amounts shown on the Total Federal Assistance line must be in agreement with the General Ledger (Receipts, Expenditures, Other Additions, Other Deductions, Ending Fund Balance). All reconciling items should be fully explained.” In addition, the STARS Manual contains requirements for monthly reconciliations of federal programs account balances to the CSA 467CM report.

We continue to recommend the Commission assign responsibility for preparing and reviewing its federal schedule to knowledgeable and well-trained employees. The Commission should also provide the staff with the proper training and establish written procedures regarding the preparation and independent supervisory review of the Commission’s schedule of federal financial assistance in accordance with the Office of the State Auditor’s letter of instructions. Furthermore, the Commission should ensure that amounts and other information reported on the federal schedule are accurate (e.g., reconciled to SABAR and STARS) and complete.

RECEIPT OF REVENUE

Our fiscal year 2002 tests of controls over cash receipts included 25 deposit packages each of which had one or more individual receipts attached. We could not determine if four of those receipts were deposited in a timely manner because the Commission failed to document the date the funds were collected. We identified a similar deficiency for one receipt during our follow-up of exceptions noted during the prior year engagement. Also, during our cut-off test of 25 deposit packages, we could not determine if three receipts were deposited in a timely manner and in the correct fiscal year. We reported similar findings in the 2001, 2000, 1999, and 1998 agreed-upon procedures engagements.

Cash is the asset which is most vulnerable to loss; therefore, adequate internal control procedures require the agency to initiate accounting control over monies immediately upon collection (e.g., issue a cash receipt document, date-stamp the receipt documentation) and to timely deposit receipts. Part IB of each Appropriation Act (Proviso 72.1. of 2002) requires that collections be deposited at least once each week when practical.

We again recommend the Commission implement procedures to ensure that each cash receipt is properly documented including the date of collection and is timely deposited by the authorized personnel.

RENTAL CHARGES

The Commission recorded approximately \$3.1 million in total state owned real property rental expenditures. Approximately \$2.8 million or 90 percent of the expenditures was charged to State General Fund appropriations. The remainder, approximately \$300,000 or ten percent, was charged to Earmarked funds. The Commission was financed in fiscal year 2002 from multiple funding sources. The Commission could not provide documentation to support its allocation of rent charges between funds. [A similar finding was reported in the fiscal years 2001 and 2000 reports.]

In its response to the fiscal year 2001 finding, management stated that the Executive Director would prepare a written policy relative to rent allocation prior to the fiscal year 2002 audit. However, management did not prepare a written policy and could not provide us with documentation to support the method it used to allocate rental expenditures.

Proviso 72.38. of Part IB of the fiscal year 2002 Appropriation Act states, “ All departments and agencies against which rental charges are assessed and whose operations are financed in whole or in part by federal and/or other nonappropriated funds are directed to apportion the payment of such charges equitably among all such funds, so that each shall bear its proportionate share.”

As was recommended in the fiscal years 2001 and 2000 reports, we again recommend that the Commission design and implement policies and procedures to ensure rental charges are allocated equitably among all of its funds. The agency’s control system should also ensure that adequate documentation of its allocation method and computations by fund sources is prepared and retained.

INVENTORY OF PERSONAL PROPERTY

The Commission was unable to provide documentation that it performed an annual inventory of personal property for fiscal year 2002. Commission personnel stated that an inventory was performed but they could not locate the documents used during the process.

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, states, “The head of each department, agency or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables. The State Auditor shall make an audit of this property as he considers necessary or when requested to do so.”

We recommend that the Commission annually perform an inventory of its personal property and retain appropriate documentation that the inventory was performed.

RECORD RETENTION

The Commission was unable to locate two receipt vouchers, as well as the attached supporting documentation for each of the transactions. The Commission was also unable to locate supporting documentation for another receipt voucher and two disbursement vouchers and was unable to locate copies of copier leases that were renewed during fiscal year 2002. A similar finding was noted in the prior year report.

Sound internal controls require that supporting documentation be obtained, retained, and filed in an orderly manner to support all recorded transactions. Also, the General Records Retention Schedule for Financial Records of State Agencies, developed by the Archives and Records Management Division of the South Carolina Department of Archives and History, was prepared to provide general retention and disposition schedules for state agencies. It gives state agencies the legal authorization to retain and dispose of administrative, legal, fiscal, and other records and also to ensure that records are retained in accordance with state and federal laws, regulations, policies, and procedures.

We again recommend that the Commission develop and implement a written file maintenance plan which covers creation and filing of all documents, as well as the ongoing maintenance and control of files and their contents including temporary removal of the files or of information from the files, (e.g., use of document sign-out forms) to ensure that documents can be located and retrieved by authorized users when needed.

SUPPLEMENTAL SALARY

The current Executive Director of the Museum Commission was hired effective April 2, 2002. According to a contract between the Executive Director and the South Carolina Museum Foundation dated June 6, 2002, the Executive Director is to be paid \$25,000 in non-employee compensation annually from April 22, 2002 to April 22, 2004. These funds are a supplement to the Executive Director's salary which is funded by state appropriations.

Proviso 63C.2. of Part IB of the fiscal year 2001-2002 Appropriation Act states,

No supplement shall be paid to an agency's employee unless the agency head or designated official of the employing agency has approved the conditions and amount of salary supplement. Any compensation, excluding travel reimbursement, from an affiliated public charity, foundation, clinical faculty practice plan, or other public source or any supplement from a private source to the salary appropriated for a state employee and fixed by the State must be reported by the employing agency to the Division of Budget and Analyses of the Budget and Control Board. The report must include the amount, source, and any condition of the supplement. The employing agency must report this information on or before August 31 of each year and must include the total amount and source of the salary supplement received by the employee during the preceding fiscal year (July 1 through June 30).

According to management, the Commission submitted the required information to the Budget and Control Board; however, the Commission was unable to locate the appropriate documentation.

We recommend that the Commission prepare and submit a report of supplemental salary as required by the Appropriation Act, and retain documentation of the information submitted.

MANAGEMENT'S RESPONSE

MANAGEMENT'S RESPONSE

The management of the South Carolina Museum Commission did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated February 18, 2004.

5 copies of this document were published at an estimated printing cost of \$1.78 each, and a total printing cost of \$8.90. The FY 2003-04 Appropriation Act requires that this information on printing costs be added to the document.