

SOUTH CAROLINA MUSEUM COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 26, 2008

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, 2007, 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 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, 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 (\$9 - general fund, \$45,800 - earmarked fund, \$9,300 - restricted fund and \$110 - federal fund) and ± 10 percent.

- We judgmentally selected one month to test the Commission's revenue clearing account allocation to determine if the allocation was performed in compliance with the Commission's policies and procedures and that totals agreed to amounts recorded in the Commission's accounting records.
- We performed a reasonableness test of taxes paid on the sale of goods and admissions revenue and investigated variances greater than 5 percent.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 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 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, 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 (\$73,200 – general fund, \$19,300 – earmarked fund, \$9,300 - restricted fund and \$2,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Payment of Invoices in the Accountant's Comments section in 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 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, 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 (\$73,200 – general fund, \$19,300 – earmarked fund, \$9,300 – restricted fund and \$2,100 – 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 Payroll in the Accountant's Comments section of this report.

4. **Journal Entries and 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 journal entry 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 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 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 Commission for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Comptroller General'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 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 reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Museum Commission
June 26, 2008

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency'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, 2007, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of the procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Section B 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 Museum Commission 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.

PAYMENT OF INVOICES

During the test of disbursements, we noted that one out of the 25 vouchers tested was not submitted to the Comptroller General's Office for payment within 30 workdays of receipt of goods. The Cotton Mill Exchange, the Museum's gift shop, ordered books in October 2006 for a book signing to be held in December 2006. The books were received on October 9, 2006 and the invoice was paid on December 21, 2006.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services.

We recommend the Commission strengthen its policies and procedures to ensure that vouchers are paid in accordance with state procurement regulations.

PAYROLL

Calculation of Pay

The Commission incorrectly calculated the initial pay for one of the 25 new employees tested. According to documents contained in the employee's personnel file, the employee's first day of work was September 5, 2006. However the Commission paid the employee for the September 4, 2006 holiday, resulting in an overpayment of \$135. The Commission also incorrectly calculated overtime pay for two employees, resulting in a total underpayment of \$23.

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

reviews of pay calculations and independent verifications of pay rates, work hours, hire dates, etc. increase the probability that errors will be detected and corrected in a timely manner.

We recommend the Commission develop and implement procedures to ensure that payments to employees are correctly calculated.

Personnel Action Forms

The fund source documented on the Commission's internal Personnel Action form did not agree to fund source recorded on the Comptroller General's Payroll Warrant Register for one hourly employee. No fund source was documented on the Personnel Action form of another hourly employee.

An effective system of internal controls includes control procedures to ensure that payroll support documentation is accurate.

We recommend that the Commission develop and implement procedures to ensure that employee Personnel Action forms are complete, accurate, and updated timely.

CLOSING PACKAGES

Capital Assets

During our testing of the Commission's capital assets closing package we noted the following:

1. The estimated useful life of 14 assets was not documented on the capital assets worksheet.
2. The asset location, state tag number, and fund source used to acquire the asset was not documented on the capital assets worksheet for any of the assets reported.
3. The Commission could not provide documentation reconciling the ending balance for construction in progress reported on the capital assets summary form to the Commission's accounting records.

(Similar findings were reported in previously issued State Auditor reports for fiscal years 2006, 2005, 2003, 2002, 2001 and 2000).

Sections 3.8 through 3.11 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) provide instructions on how to properly report capital asset transactions and balances.

Miscellaneous Revenues

The Commission overstated the reported accounts receivable balance by \$39 on the miscellaneous revenues closing package.

Section 3.4 of the GAAP Manual provides guidance to agencies that are required to report accounts receivable balances in closing packages.

Cash and Investments

The Commission reported the authorized balance of its curator bank account instead of the actual book balance on its cash and investment closing package.

Section 3.1 of the GAAP Manual provides instructions to guidance to agencies that are required to report cash balances in closing packages.

Recommendation

We recommend that Commission personnel responsible for completing and reviewing closing packages review closing package instructions to ensure accurate reporting of closing packages.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2006, and dated October 15, 2007. We determined that the Commission has taken adequate corrective action on the findings regarding Appropriation Transfer, Reconciliations and Reimbursement of Personal Services Costs. We determined the other deficiencies described in our prior report still exist; consequently we have repeated similar findings regarding Closing Packages in Section A of the report.

MANAGEMENT'S RESPONSE

**H 9 5 M U S E U M C O M M I S S I O N
MANAGEMENT RESPONSES FOR FY07 AUDIT FINDINGS**

PAYMENT OF INVOICES

During the test of disbursements, we noted that one out of the 25 vouchers tested was not submitted to the Comptroller General's Office for payment within 30 workdays of receipt of goods. The Cotton Mill Exchange, the Museum's gift shop, ordered books in October 2006 for a book signing to be held in December 2006. The books were received on October 9, 2006 and the invoice was paid on December 21, 2006.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services. We recommend the Commission strengthen its policies and procedures to ensure that vouchers are paid in accordance with state procurement regulations.

Management's Response:

The Museum Commission's gift shop, The Cotton Mill Exchange, ordered books in October 2006 for a book signing to be held in December 2006. The books were received on October 9, 2006 and the invoice reflected the payment as being due in 30 days. Normally, books ordered for a scheduled book signing are on consignment and do not transfer of ownership until the books are sold and then the remaining books are return to the vendor. In this particular instance the book signing was cancelled and management decided to purchase the books. The invoice was paid on December 21, 2006. The Commission will review our current procedures relating to purchasing books on consignment and ensure to adhere to Section 11-35-45 of the 1976 South Carolina Code of Law.

PAYROLL

Calculation of Pay

The Commission incorrectly calculated the initial pay for one of the 25 new employees tested. According to documents contained in the employee's personnel file, the employee's first day of work was September 5, 2006. However the Commission paid the employee for the September 4, 2006 holiday, resulting in an overpayment of \$135. The Commission also incorrectly calculated overtime pay for two employees, resulting in a total underpayment of \$23.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. In addition, independent reviews of pay calculations and independent verifications of pay rates, work hours, hire dates, etc. increase the probability that errors will be detected and corrected in a timely manner.

We recommend the Commission develop and implement procedures to ensure that payments to employees are correctly calculated.

Management's Response:

The Museum Commission paid an employee for the September 4, 2006 holiday when the effective date of the new employee was documented as September 5, 2006. When the payroll number of days worked was calculated the employee should have been paid for 9 days worked instead of 10 days worked. The Museum will review the current procedures to ensure this error does not occur in the future. The Museum Commission also incorrectly calculated overtime pay for two employees, resulting in a total underpayment of \$23. The underpayment of \$23 related to two temporary employees working for two different divisions and overtime was not calculated correctly. The Museum Commission is currently revisiting all aspects relating to temporary employees working for different division. Procedures have been implemented which include the Human Resource Manager reviewing the payroll to ensure the accurate preparation of the agency payroll.

Personnel Action Forms

The fund source documented on the Commission's internal Personnel Action form did not agree to fund source recorded on the Comptroller General's Payroll Warrant Register for one hourly employee. No fund source was documented on the Personnel Action form of another hourly employee.

An effective system of internal controls includes control procedures to ensure that payroll support documentation is accurate.

We recommend that the Commission develop and implement procedures to ensure that employee Personnel Action forms are complete, accurate, and updated timely.

Management's Response:

During the audit there were two instances where the fund source documented on the Museum Commission's internal Personnel Action form did not agree to Comptroller General's Payroll Warrant Register. The Commission has implemented procedures to ensure both the Human Resource Manager and Accountant/Fiscal Analyst I will review the employee Personnel Action forms to ensure it is completed accurately and in a timely manner.

CLOSING PACKAGES

Capital Assets

During our testing of the Commission's capital assets closing package we noted the following:

1. The estimated useful life of 14 assets was not documented on the capital assets worksheet.
2. The asset location, state tag number, and fund source used to acquire the asset was not documented on the capital assets worksheet for any of the assets reported.

3. The Commission could not provide documentation reconciling the ending balance for construction in progress reported on the capital assets summary form to the Commission's accounting records.

(Similar findings were reported in previously issued State Auditor reports for fiscal years 2006, 2005, 2003, 2002, 2001 and 2000).

Sections 3.8 through 3.11 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) provide instructions on how to properly report capital asset transactions and balances.

Management's Response:

The Museum Commission will strengthen Capital assets reporting requirements as required in Section 3.8 through 3.11 of the GAAP Manual. The goal of the Museum is that the closing package will be current and complete as required for the fiscal year 2007-2008.

Miscellaneous Revenues

The Commission overstated the reported accounts receivable balance by \$39 on the miscellaneous revenues closing package.

Section 3.4 of the GAAP Manual provides guidance to agencies that are required to report accounts receivable balances in closing packages.

Management's Response:

During the preparation of the Miscellaneous Revenue Closing Package the Commission overstated the reported accounts receivable balance by \$39. Revenues received from another State agency should not be reported in the closing package. The Commission will ensure future closing packages will be prepared in accordance to Section 3.4 of the GAAP Manual.

Cash and Investments

The Commission reported the authorized balance of its curator bank account instead of the actual book balance on its cash and investment closing package.

Section 3.1 of the GAAP Manual provides instructions to guidance to agencies that are required to report cash balahces in closing packages.

Recommendation

We recommend that Commission personnel responsible for completing and reviewing closing packages review closing package instructions to ensure accurate reporting of closing packages.

Management's Response:

The Commission reported the authorized balance of its curator bank account instead of the actual book balance on the Cash and Investments Closing Package. This error occurred when the authorized balance was incorrectly entered. The Commission will ensure future

closing packages will be prepared in accordance to Section 3.1 of the GAAP Manual. Future Cash and Investment Closing Packages will reflect the actual cash balance as instructed in Section 3.1 of the GAAP Manual.

4 copies of this document were published at an estimated printing cost of \$1.54 each, and a total printing cost of \$6.18. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.