

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

STATE AUDITOR'S REPORT

JUNE 30, 2004

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 19, 2005

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Archives and History, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2004, 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 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 compared current year recorded payroll expenditures to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

4. **Journal Entries and Operating Transfers**

- We inspected selected recorded journal entries and all operating 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 to detect errors and/or irregularities.

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 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 the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

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, 2004, 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 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 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. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Department'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 2004.

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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, 2004, 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; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

10. **Status of Prior Findings**

We inquired about the status of the deficiencies described in 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, 2003, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Reconciliations and Accounting for Federal Funds in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified 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 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.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - 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.

RECONCILIATIONS

Section 2.1.7.20.C. of 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 the Comptroller General's 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 Report are proper." Section 2.1.7.20.C. specifies that cash, revenue and expenditure reconciliations are to be performed monthly on a timely basis.

The STARS Manual states that agency reconciliations must be:

- Performed at least monthly, shortly after month end.
- Documented in writing 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.

The Manual further states, "Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STAR as appropriate".

We reviewed fiscal year 2004 reconciliations in detail and noted the following deficiencies in the Department's reconciliation procedures:

1. Cash reconciliations for fiscal months (FM) 07-13 were not signed and dated by the preparer and reviewer.
2. Cash reconciliations were not prepared for FM01 – FM06.
3. Expenditure reconciliations were not prepared for FM 01 – FM03 and FM07.
4. Expenditure reconciliation for FM05 was not signed and dated by the preparer.
5. Expenditure reconciliations are not reviewed by someone other than the preparer.
6. Federal reconciliations for FM10 and FM12 were not signed and dated by the reviewer.
7. We noted five instances in which reconciliations were not performed in a timely manner.

Similar deficiencies in the preparation of reconciliations were described in our fiscal years 2003, 2002, 2001, 2000, and 1999 reports.

We again recommend the Department develop and implement policies and procedures to ensure that its reconciliation process for cash, revenues, expenditures, and federal funds comply with all reconciliation requirements set forth in the STARS Manual and as required for adequate accounting control. Also, we recommend that errors detected through monthly reconciliations be promptly corrected in the Department's internal accounting records and/or in STARS as appropriate.

ACCOUNTING FOR FEDERAL FUNDS

The Department did not properly report all financial activity associated with the Historic Preservation grant (CFDA 15.904) on its Schedule of Federal Financial Assistance (SFFA). The Department accounts for grant activities in both earmarked and federal subfunds. The Department only reports the financial activity from the federal subfund on the SFFA. It does however disclose in a note to the SFFA revenue received applicable to the grant.

Prior to 1986, the Department received reimbursement from the federal grantor for the State's match. This reimbursement was accounted as State General Fund revenue instead of Department federal revenue. 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.

In addition we determined that the Department may have inadvertently included expenditures related to this federal grant when calculating its compliance with program match requirements because it uses the expenditures recorded in the earmarked subfund to calculate compliance and the earmarked subfund includes federal expenditures.

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 (e.g. federal funds).

Office of Management and Budget Circular A-102 contains requirements for matching. Circular A-102 requires that the match contribution be made with non-federal funds.

We recommend that the Department follow STARS Manual requirements to account for its Historic Preservation grant funds. The Department should make adjustments to its accounting records and STARS to correct the classification errors. We also recommend that the Department properly report the federal grant activity on its SFFA in accordance with the State Auditor's letter of instruction. We also recommend the Department determine the extent that they may have inappropriately included federal expenditures to match other federal grants. If it is determined that federal expenditures were used in calculating compliance with matching requirements we recommend that the Department contact the federal grantor to seek resolution of the error.

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 South Carolina Department of Archives and History for the fiscal year ended June 30, 2003, and dated October 20, 2004. We determined that the Department has not taken adequate corrective action on each of the findings and we have repeated these findings.

MANAGEMENT'S RESPONSE