SOUTH CAROLINA ARTS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina

Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 12, 2007

The Honorable Mark Sanford, 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, 2006, 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 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 ($4,000 – earmarked fund, $880 – restricted fund, and $11,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Coding of Revenue 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 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 ($28,500 – general fund, $3,200 – earmarked fund, $2,600 – restricted fund, and $11,900 – federal fund) and $\pm$ 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 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 ($28,500 – general fund, $3,200 – earmarked fund, $2,600 – restricted fund, and $11,900 – federal fund) and $\pm$ 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 $\pm$ 5 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 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 transactions selected for our test of journal entries were chosen randomly. We found no exceptions as a result of these 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, 2006, and inspected 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 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 these procedures.

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, 2006, 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 finding as a result of these procedures is presented in Capital Assets Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, 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 these procedures.

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.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT’S COMMENTS

VIOLATION 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.

CAPITAL ASSETS CLOSING PACKAGE

During our testing of the fiscal year 2006 capital assets closing package we noted the following:

1. The amount reported for machinery and equipment end-of-year balance on the capital assets summary form differed from supporting documentation by $7,735. We determined that part of the difference occurred because the Commission reported a work of art with a cost of $7,500 as machinery and equipment, which resulted in an overstatement of this balance. This error also caused the end-of-year balance reported for works of art and historical treasures on the capital assets summary form to be understated by $7,500. The Commission could not explain the remaining $235 of the difference.

2. The Commission reported software with a cost of $19,764 as equipment on the capital assets summary form and on its equipment listing. According to Section 3.9 of the GAAP Closing Procedures Manual (GAAP Manual) purchased software is an intangible item subject to a capitalization threshold of $100,000. This error also affected reported accumulated depreciation.

3. The start-of-year and end-of-year balances reported on the accumulated depreciation summary form did not agree to supporting documentation. According to Commission personnel, changes were made to the acquisition cost of two assets reported on the depreciation listing, one of which had already been fully depreciated in a prior fiscal year. The Commission did not report a net correction to beginning balance on the closing package for these changes nor did it make the change to its equipment listing.

4. Current year depreciation expense reported on the accumulated depreciation summary form was overstated by $6,030. The Commission depreciated one asset an additional year in error when it was already fully depreciated in fiscal year 2005. The Commission reported a net correction of $1,308 on its fiscal year 2005 closing package because of an error noted by fiscal year 2004 auditors. This adjustment fully depreciated the asset as it was reported on the closing package; however, the Commission never adjusted its books for this amount. In addition, the Commission erroneously reported depreciation expense of $4,722 because it changed the acquisition cost of the item (See #3 above).

Sections 3.8 through 3.11 of the GAAP Manual provide 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 therefrom.

We recommend the Commission implement procedures to ensure that closing packages are completed in accordance with GAAP Manual instructions. The Commission should ensure that the closing packages are supported by the agency's general ledger or supporting schedules. The Commission should also ensure that the supporting schedules are retained for audit purposes.

CODING OF REVENUE

We tested twenty-five deposits and noted that the Commission posted six transactions to incorrect revenue object codes. The transactions related to grant application and artist roster fees which should have been posted to object code 4850 (Miscellaneous Fees); however, the Commission used object code 4856 (Admission Application Fee) to record the revenue.

Sound internal controls require that revenue be properly classified on the Commission's books of account.

We recommend the Commission establish and implement policies and procedures to ensure all revenue received is properly classified and recorded in its accounting system.

MANAGEMENT’S RESPONSE

CAPITAL ASSETS CLOSING PACKAGE
Finding Number 1

During our testing of the fiscal year 2006 capital assets closing package we noted the following:

1. The amount reported for machinery and equipment end-of-year balance on the capital assets summary form differed from supporting documentation by $7,735. We determined that part of the difference occurred because the Commission reported a work of art with a cost of $7,500 as machinery and equipment, which resulted in an overstatement of this balance. This error also caused the end-of-year balance reported for works of art and historical treasures on the capital assets summary form to be understated by $7,500. The Commission could not explain the remaining $235 of the difference.

   Management's Response:
   One of the Commission's works of art, cost of $7,500, is now correctly listed as art and not equipment. Ending balances for equipment and art agree with supporting documentation. The $235 discrepancy was corrected with a "Net Corrections to Beginning Balances" adjustment on the 2007 closing package, as recommended by the on-site auditor.

2. The Commission reported software with a cost of $19,764 as equipment on the capital assets summary form and on its equipment listing. According to Section 3.9 of the GAAP Closing Procedures Manual (GAAP Manual) purchased software is an intangible item subject to a capitalization threshold of $100,000. This error also affected reported accumulated depreciation.

   Management's Response:
   The Commission has made a "Net Corrections to Beginning Balances" adjustment on the 2007 closing package to reflect a reduction in equipment of $19,764.

3. The start-of-year and end-of-year balances reported on the accumulated depreciation summary form did not agree to supporting documentation. According to Commission personnel, changes were made to the acquisition cost of two assets reported on the depreciation listing, one of which had already been fully depreciated in a prior fiscal year. The Commission did not report a net correction to beginning balance on the closing package for these changes nor did it make the change to its equipment listing.

   Management's Response:

   The Commission's Capital Asset's listing contained two items, decal 004551 (purchased in 1983) and 001179 (purchased in 1998), that were listed at an incorrect purchase price. Since both items were fully depreciated over the years, the accumulated depreciation listed on the closing package was over-stated. A "Net Corrections to Beginning Balances" adjustment has been made on the 2007 closing package to reflect the correct accumulated depreciation.

4. Current year depreciation expense reported on the accumulated depreciation summary form was overstated by $6,030. The Commission depreciated one asset an additional year in error when it was already fully depreciated in fiscal year 2005. The Commission reported a net correction of $1,308 on its fiscal year 2005 closing package because of an error noted by fiscal year 2004 auditors. This adjustment fully depreciated the asset as it was reported on the closing package; however, the Commission never adjusted its books for this amount. In addition, the Commission erroneously reported depreciation expense of $4,722 because it changed the acquisition cost of the item (See #3 above).

   Management's Response:

   The Commission has corrected the Accumulated Depreciation Summary form with a "Net Corrections to Beginning Balances" adjustment on the 2007 closing package. The item in question, decal 004731, was depreciated on the 2004 closing package using SABAR's prorated method of depreciation for the first year in service. The Comptroller General's Office requested that we take a full year's depreciation the first year and make the adjustments to 2005's closing package. This was done, but the change was omitted on the 2006 closing package, which is the "finding" mentioned above.

CODING OF REVENUE
Finding Number 2

We tested twenty-five deposits and noted that the Commission posted six transactions to incorrect revenue object codes. The transactions related to grant application and artist roster fees which should have been posted to object code 4850 (Miscellaneous Fees); however, the Commission used object code 4856 (Admission Application Fee) to record the revenue.

Management's Response:

The Commission concurs with the requested revenue object code change. All grant application fees are now recorded using object code 4850.

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