

SOUTH CAROLINA MUSEUM COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 15, 2007

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, 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 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, 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 (\$0 – general fund, \$25,000 – earmarked fund, and \$900 – 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 of 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, 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 (\$34,700 – general fund, \$25,600 – earmarked fund, and \$600 – federal fund) and ± 10 percent.

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 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared 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, 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 (\$34,700 – general fund, \$25,600 – earmarked fund, and \$600 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 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 journal entry transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Appropriation Transfer in the Accountant's Comments section of this report.

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 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. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Commission's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in Reimbursement of Personal Services Costs in the Accountant's Comments section of this report.

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 Closing Packages 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 the procedures.

10. **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, 2005, 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.

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Museum Commission
October 15, 2007

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.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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.

APPROPRIATION TRANSFER

When the Commission received its mid-year budget authorization for the employee pay and related employer contribution increases and the health insurance increase, it did not record all of the authorization in the appropriate personal service and employer contributions accounts. Instead, it recorded \$7,782 in its supply account because it did not need all of the budget authorization to meet the agency's personal service and employer contribution requirements.

Commission personnel informed us that it does not record its original budget, as approved by the General Assembly, in its accounting system. We were told that Commission personnel prepare and record an "alternative" budget and reconcile the "alternative" budget to the authorized budget throughout the year. Commission personnel prepare internal transfers as necessary to ensure that line item appropriations are not exceeded.

Section 72.10 of the Appropriation Act authorizes agencies to make appropriation transfers within programs and within the agency of up to 20 percent of the program budget with notification to the Division of Budget and Analyses and Comptroller General. Section 72.10 further requires approval from the majority members of the Budget and Control Board for appropriation transfers between personnel service and other operating accounts.

We recommend the Commission record its original budget in accordance with the Appropriation Act. We also recommend the Commission obtain the required approvals before transferring budget authorization between accounts.

RECONCILIATIONS

Monthly reconciliations of federal funds account balances by project/phase code were not performed during fiscal year 2006. (A similar finding has been reported in every State Auditor report since fiscal year 1997). In addition, the Commission did not post certain opening balance entries to record the carry forward of fiscal year 2005 ending cash balances for federal fund accounts. As a result, the federal account cash balances reported in the Commission's general ledger (SABAR) did not agree to cash balances reported in the Comptroller General's STARS reports.

Commission personnel stated that these cash balances were not carried forward due to uncertainty of the source and accuracy of the balances.

The Commission is not in compliance with the Comptroller General's STARS Policies and Procedures manual. Because management did not carry forward the prior year ending cash balances, we were unable to determine if the balances reported in the Commission's books were in agreement with the amounts recorded in the Comptroller General's books.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS) Manual requires agencies with federal subfunds to perform monthly reconciliations between the CSA467CM and agency accounting records. Errors discovered during the reconciliation process should be promptly corrected. Furthermore, an effective internal control structure should include procedures to ensure the timely detection and correction of errors.

We again recommend that the Commission follow the requirements of the STARS manual and prepare timely month-end reconciliations of federal subfunds. We also recommend the Commission post carry forward cash balances to its books and make opening balance adjustments to its accounts as necessary.

REIMBURSEMENT OF PERSONAL SERVICES COSTS

In accordance with the operating agreement between the South Carolina State Museum Commission (the Commission) and the South Carolina Museum Foundation (the Foundation) dated October 26, 2006, the Foundation shall annually reimburse the Commission for all expenses related to the employment of the Foundation's Executive Director and the Commission's Director of Development based on an allocation of time spent by Museum personnel working on Foundation business. In fiscal year 2006, these expenses were 100% reimbursed by the Foundation.

Proviso 63.11 of the fiscal year 2005-2006 Appropriation Act states, in part,

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).

Commission management explained that they did not feel that the proviso pertained to the reimbursement received from the Foundation; therefore, they did not submit the required information to the Budget and Control Board.

We recommend the Commission submit the report as required by the Appropriation Act and retain documentation of the information submitted.

CLOSING PACKAGES

Capital Assets

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

1. The estimated useful life of sixteen assets was not documented on the capital assets worksheet.
2. Location of the asset, state tag number, and fund source used in the acquisition of the asset was not documented on the capital assets worksheet for any of the eighteen assets reported.
3. The dollar amount of assets added to the non-capitalized collections reported on the capital assets overview questionnaire was understated by \$31,500.
4. An asset with a cost of \$4,725, which is below the Commission's capitalization amount of \$5,000, was reported on the capital assets worksheet.
5. We were unable to agree ending balance for construction-in-progress reported on the capital assets summary form to the Commission's accounting records.

(Similar findings were noted in previously issued State Auditor reports for fiscal years 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 Revenue

During our review of the miscellaneous revenue closing package, we determined that the Commission understated the reported accounts receivable balance by \$2,456.

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

Recommendation

We recommend that the Commission strengthen its procedures to ensure that closing packages contain accurate and complete information in accordance with GAAP Manual instructions.

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, 2005, and dated May 12, 2006. We determined that the Commission has taken adequate corrective action on the findings regarding Payroll and Inventory of Personal Property. We determined that the other deficiencies described in our prior report still exist; consequently we have repeated similar findings in Section A herein: Reconciliations and Closing Packages.

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 FY06 AUDIT FINDINGS

APPROPRIATION TRANSFER

When the Commission received its mid-year budget authorization for the employee pay and related employer contribution increases and the health insurance increase, it did not record all of the authorization in the appropriate personal service and employer contributions accounts. Instead, it recorded \$7,782 in its supply account because it did not need all of the budget authorization to meet the agency's personal service and employer contribution requirements.

Commission personnel informed us that it does not record its original budget, as approved by the General Assembly, in its accounting system. We were told that Commission personnel prepare and record an "alternative" budget and reconcile the "alternative" budget to the authorized budget throughout the year. Commission personnel prepare internal transfers as necessary to ensure that line item appropriations are not exceeded.

Section 72.10 of the Appropriation Act authorizes agencies to make appropriation transfers within programs and within the agency of up to 20 percent of the program budget with notification to the Division of Budget and Analyses and Comptroller General. Section 72.10 further requires approval from the majority members of the Budget and Control Board for appropriation transfers between personnel service and other operating accounts.

We recommend the Commission record its original budget in accordance with the Appropriation Act. We also recommend the Commission obtain the required approvals before transferring budget authorization between accounts.

Management's Response:

The Museum Commission's expenditures are processed in accordance with the Appropriations Act and required approvals are obtained prior to expenditure. The Appropriations Act is prepared almost 2 years in advance. Many changes occur to our internal organizational structure, not to mention budget reductions done by the legislature, by the time the Appropriations Act is finalized. Once our appropriation is determined, the directors meet to finalize the internal budget. While our internal budget may not match the exact amount in the Appropriations Act at the beginning of the fiscal year, the difference is not significant enough to warrant an immediately appropriation transfer request. The Commission monitors expenditures through-out the year to determine where year-end authorization may have to be increased or decreased and appropriation transfers are processed with required approval.

The Museum Commission will review our current procedures.

RECONCILIATIONS

Monthly reconciliations of federal funds account balances by project/phase code were not performed during fiscal year 2006. (A similar finding has been reported in every State Auditor report since fiscal year 1997). In addition, the Commission did not post certain opening balance entries to record the carry forward of fiscal year 2005 ending cash balances for federal fund accounts. As a result, the federal account cash balances reported in the Commission's general ledger (SABAR) did not agree to cash balances reported in the Comptroller General's STARS reports.

Commission personnel stated that these cash balances were not carried forward due to uncertainty of the source and accuracy of the balances.

The Commission is not in compliance with the Comptroller General's STARS Policies and Procedures

manual. Because management did not carry forward the prior year ending cash balances, we were unable to determine if the balances reported in the Commission's books were in agreement with the amounts recorded in the Comptroller General's books.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS) Manual requires agencies with federal subfunds to perform monthly reconciliations between the CSA467CM and agency accounting records. Errors discovered during the reconciliation process should be promptly corrected. Furthermore, an effective internal control structure should include procedures to ensure the timely detection and correction of errors.

We again recommend that the Commission follow the requirements of the STARS manual and prepare timely month-end reconciliations of federal subfunds. We also recommend the Commission post carry forward cash balances to its books and make opening balance adjustments to its accounts as necessary.

Management's Response:

Monthly reconciliations are performed timely and errors are promptly corrected. All discrepancies were noted and accountable. Following the FY05 Audit, conducted at the beginning of FY07, carry-forward cash balances were loaded for FY07 and FY08. Some Federal grants have been "on the books" with the Comptroller General's Office with cash balances for years, some as long as 10 years. Reconciling and closings these grants is a priority for the Commission, however progress has been slow due to limited resources, both in staff and supporting documentation. At the end of FY03, 11 federal grants (27 sub-grants) were showing cash balances—in FY08, 2 grants remained. These will be reconciled and close by January 2008.

REIMBURSEMENT OF PERSONAL SERVICES COSTS

In accordance with the operating agreement between the South Carolina State Museum Commission (the Commission) and the South Carolina Museum Foundation (the Foundation) dated October 26, 2006, the Foundation shall annually reimburse the Commission for all expenses related to the employment of the Foundation's Executive Director and the Commission's Director of Development based on an allocation of time spent by Museum personnel working on Foundation business. In fiscal year 2006, these expenses were 100% reimbursed by the Foundation.

Proviso 63.11 of the fiscal year 2005-2006 Appropriation Act states, in part,

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). Commission management explained that they did not feel that the proviso pertained to the reimbursement received from the Foundation; therefore, they did not submit the required information to the Budget and Control Board.

We recommend the Commission submit the report as required by the Appropriation Act and retain documentation of the information submitted.

Management's Response:

The Commission believes reporting the Foundation employees on the Annual Supplement Salary report is redundant and does not follow the intent of this proviso. The Annual Supplement Salary report is submitted to the Office of Human Resources by August 31st of each year. Director Calloway's supplement received from the Foundation is reported each year. OHR can only capture the Director's supplemental from this report since the supplement is paid directly to him from the Foundation. However,

the employees of the Foundation hold State grant positions—therefore, OHR already captures their salary information and no other supplemental is being paid directly to the employees from the Foundation.

The Museum Commission will obtain further clarification from OHR.

CLOSING PACKAGES

Capital Assets

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2. Location of the asset, state tag number, and fund source used in the acquisition of the asset was not documented on the capital assets worksheet for any of the eighteen assets reported.
3. The dollar amount of assets added to the non-capitalized collections reported on the capital assets overview questionnaire was understated by \$31,500.
4. An asset with a cost of \$4,725, which is below the Commission's capitalization amount of \$5,000, was reported on the capital assets worksheet.
5. We were unable to agree ending balance for construction-in-progress reported on the capital assets summary form to the Commission's accounting records.

(Similar findings were noted in previously issued State Auditor reports for fiscal years 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 Revenue

During our review of the miscellaneous revenue closing package, we determined that the Commission understated the reported accounts receivable balance by \$2,456.

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

Recommendation

We recommend that the Commission strengthen its procedures to ensure that closing packages contain accurate and complete information in accordance with GAAP Manual instructions.

Management's Response:

The Museum Commission will strengthen Capital Assets reporting requirement.

The Commission's understatement of its Accounts Receivable balance was due to human error. The amount in question was clearly labeled as funds received after June 30, but recorded in FY06. The preparer included the amount in error. The Finance Manager will have the Finance Accountant review and initial the closing package prior to submission for the Director's review.

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