

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

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 24, 2000

The Honorable James H. Hodges, 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, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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 and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

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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 Department, and were paid in conformity with State 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 on 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. We found no exceptions as a result of the procedures.
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 all new employees and all 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 on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in recorded employer contributions; 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; and comparing estimated fringe benefit expenditures to actual fringe benefit expenditures 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 Payroll and Personnel in the Accountant's Comments section of this report.
4. We tested 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries tested were judgmentally selected to include routine, large, and unusual items. We found no exceptions as a result of the procedures.

5. We tested 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 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 Department for the year ended June 30, 1999, and tested all reconciliations of balances at June 30, 1999, 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 these reconciliations, we 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. We judgmentally decided to select June reconciliations for testing. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested 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 1999. Our findings as a result of these procedures are presented in Reconciliations, Payroll and Personnel, and Working Papers for Closing Packages 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 Department resulting from our engagement for the fiscal year ended June 30, 1998, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Reconciliations and Payroll and Personnel 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, 1999, prepared by the Department 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 Working Papers for 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, 1999, prepared by the Department 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. We found no exceptions as a result of the procedures.

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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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 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. in the Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on Comptroller General 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 Financial Report are proper." To ensure adequate error detection and to satisfy audit requirements, the State requires agencies to perform monthly reconciliations of cash, revenues, and expenditures. Furthermore, agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency's records for each project and phase code. The cited STARS Manual section lists the following reconciliation requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format 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 ...

Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

We noted the following deficiencies in the Department's reconciliation procedures:

1. Reconciliations were incomplete and usually lacked the preparer's signature and the preparation date and evidence (signature and date) of independent reviews.
2. The Department did not identify and explain all reconciling items. We found one variance related to cash and one related to revenues which were not explained and resolved.

3. The Department did not reconcile federal fund transactions to its internal accounting system [the Statewide Automated Accounting System (SAAS)] at the required level of detail. The SAAS general ledger report used for federal grants reconciliations does not separate account balances by grant year although transactions are recorded in SAAS at that level of detail.
4. Using other internal records, the Department manually determined the detail of federal fund transactions, agreed the total thereof to SAAS, and reconciled this detail to the CSA 467CM report. The detail was shown on the written reconciliation but not supported by a SAAS report or other documents.
5. Because most of the reconciliations were not dated, we were unable to determine if the reconciliations were prepared on a timely basis.

Similar deficiencies were described in our prior year report.

We again recommend the Department establish policies and procedures to ensure that its reconciliation process including documentation is adequate to comply with all reconciliation and error detection/correction requirements in the STARS Manual and for adequate accounting control. The Department should determine the SAAS system capabilities and/or consult with the SAAS support personnel at the University of South Carolina to modify/enhance the system to develop a report for federal funds with account balance detail by grant year. Also, we recommend that errors detected through monthly reconciliations be promptly corrected on its internal accounting records and/or in STARS as appropriate. In addition, when the Department prepares manual schedules, it should adequately document the sources of that information.

PAYROLL AND PERSONNEL

State laws and regulations require agencies to maintain accurate and complete personnel, payroll, attendance, and leave records to support personnel and payroll transactions and to provide an employment history for each employee. Sound business policy requires management to establish and maintain effective internal controls to ensure that all pay calculations and salary/wage payments are accurate. 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 any

salary from the State that is not due and for anyone employed by the State to pay salaries or monies to State employees that are not due.

We tested 25 randomly selected payroll transactions (test of payroll), the initial pay for all 13 employees who began employment during fiscal year 1999 (test of new hires), and the final pay for all 13 employees who terminated (terminations test) during the fiscal year. Because of the scope of our selections, multiple pay transactions for some employees were in more than one test. For example, if an employee both began and terminated employment during the year, we tested both transactions. Pay to the same employee could also be included in our general test of payroll. In our three payroll tests, we noted the following deficiencies in the Department's documentation of hours worked and authorized pay rates for temporary employees:

1. There were no supervisory approval signatures on the time sheets supporting 5 of the 10 pay transactions.
2. For 5 of the 10 temporary employee pay transactions (3 employees), the Department had no documented authorization of the employees' hourly pay rates.

We also noted the following calculation and pay errors for accrued annual leave, hours worked in a partial pay period, and semi-monthly pay for an employee's first pay period:

1. One employee was underpaid \$152 because the Department used an incorrect hourly rate to calculate the employee's accrued annual leave payment.
2. A part-time employee was overpaid \$116 for her final pay period. The Department paid the employee for the entire 40-hour pay period although she worked only 25 hours.
3. An employee was overpaid \$409 because the Department used an incorrect semi-monthly salary for the first pay period after her hire date.

We reported similar deficiencies in recordkeeping and pay errors in our prior report.

We recommend the Department establish policies and procedures to ensure that it maintains documentation of approved pay rates, hours worked, unused annual leave hours, etc. for all employees; each timesheet has the signature/approval of both the employee and supervisor; information used in all employee pay calculations is accurate; and pay computations are accurate. Procedures should include an independent review of pay calculations which includes tracing information to supporting documentation and verifying mathematical accuracy. We further recommend that the Department recover the overpayments and correct the underpayment.

WORKING PAPERS FOR CLOSING PACKAGES

Introduction

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) data from agency-prepared closing packages to prepare the State's financial statements. To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.8 of the 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." Detailed instructions for completing each closing package are included in the GAAP Manual. Furthermore, Section 1.8 and the instructions for each closing package require an independent and effective review of each completed closing package and the underlying supporting documentation.

Section 1.9 of the GAAP Manual states, “Agencies should keep working papers to support each amount they enter on each closing package form.” It lists general suggestions for preparing and maintaining working papers that include, but are not limited, to the following:

- Working papers should be neat, legible, complete, accurate, and logically organized ...
- Your working papers should clearly support the conclusions(s) you reached and the amounts you entered on closing package forms.

We noted the following workpaper deficiencies and other matters during our review of the Department’s closing packages:

Fixed Assets

The Department’s working papers did not support the amounts entered on the closing package for fiscal year building and equipment additions and equipment and fixed asset balances at June 30, 1999. The equipment balance at June 30, 1999, as reported on the closing package, was approximately \$15,000 more than that on the Department’s detail inventory report as of fiscal year-end. The Department performed several reconciliations to identify amounts to report as additions. For both equipment and buildings it reconciled total expenditures less noncapitalized items to capitalized fixed asset additions. It also reconciled the beginning fixed assets balance plus/minus additions, retirements, and other adjustments to the ending balance at June 30, 1999. However, the reconciliations and the Department’s fixed assets inventory additions list reflect different amounts for fiscal year 1999 additions and year-end balances by asset category.

Miscellaneous Revenues

The miscellaneous revenues closing package reports miscellaneous accounts receivable that parties outside State government owe the agency at June 30. The receivable amount is further broken down into the amount received during July, the amount to be received after July, and an allowance for uncollectible accounts receivable. As explained in GAAP Manual Section 3.4 guidance for the miscellaneous revenues closing package, GAAP requires the State to use the modified accrual basis of accounting for governmental, expendable trust, and agency funds. The modified accrual basis of accounting requires revenues to be recorded in the fiscal year in which they become both measurable and available. Revenues are available at June 30 if the agency will either collect them on or before June 30 or soon enough after June 30 to pay liabilities that exist at June 30. Our State policy is that revenues are available only if the State receives payment by July 31.

The Department's working papers support the amounts reported on the closing package for accounts receivable received during July and the allowance for uncollectible accounts receivable. However, for \$4,341 reported as accounts receivable to be received after July, the Department had no supporting documentation.

Recommendations

We recommend the Department prepare and retain working papers to support each amount it reports on each closing package form. The supporting working papers should be neat, legible, complete, accurate, and logically organized. The Department should also retain copies of each closing package. In addition, we recommend the Department implement procedures to ensure that an independent and effective review of each completed closing package and related documentation is performed which includes tracing each amount on the form to the supporting documentation and checking for clerical accuracy of amounts on both the closing package and the support.

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 accounting records and internal controls of the South Carolina Department of Archives and History for the fiscal year ended June 30, 1998, and dated May 18, 1999. We determined that the Department has taken adequate corrective action on each of the deficiencies except for the comments titled Reconciliations and Payroll and Personnel which we have repeated in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



September 11, 2000

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of State Auditor
1401 Main Street
Columbia, SC 29201

Dear Mr. Wagner:

In response to a recent report issued by your office on the audit of agreed-upon procedures of the accounting records of the South Carolina Department of Archives and History for the fiscal year ended June 30, 1999, we would like to address the findings.

Most findings were due to extended problems with the computer system as the result of the agency's relocation and the Y2K transition. During the engagement the accounting staff was not operating at full capacity and the computer system was not stable. Therefore, timely transactions and reconciliation to the automated system were difficult. Accounts were monitored daily and corrections were made although documentation and timeliness was not considered reasonable. However, records were in agreement with the Comptroller General and State Treasurer by fiscal year end. We will continue to make efforts to correct all problems.

Our review is complete and you have permission to release the report at your earliest convenience. Enclosed is a listing of current commissioners and their addresses.

Sincerely,

Rodger E. Stroup
Director

Enclosure