

**SOUTH CAROLINA MUSEUM COMMISSION  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2005**

## **CONTENTS**

	<b><u>PAGE</u></b>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
PAYROLL	6
Authorizations for Payroll Deductions	6
Maintenance of Personnel Records	6
Base Hours	7
Termination Pay	8
Variance Explanations	9
RECONCILIATIONS	9
CLOSING PACKAGES	10
Introduction	10
Capital Assets	11
Miscellaneous Revenues	11
Recommendation	12
INVENTORY OF PERSONAL PROPERTY	12
SECTION B - STATUS OF PRIOR FINDINGS	13
MANAGEMENT'S RESPONSE	14

# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 12, 2006

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, 2005, 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 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 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; 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; 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.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Interagency Appropriation Transfers**

- We inspected selected recorded journal entries, all operating transfers between subfunds, 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 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 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 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 Commission for the year ended June 30, 2005, 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 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 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. **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 Commission'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 2005.

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

The Honorable Mark Sanford, Governor  
and  
Members of the Commission  
South Carolina Museum Commission  
May 12, 2006

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2005, 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; 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 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, 2005, 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 were reasonable; and if they 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 deficiencies described in 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, 2003, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B in the Accountants 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 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 - 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.



## **PAYROLL**

### **Authorizations for Payroll Deductions**

The Commission could not provide documentation of the employees' authorizations for all payroll withholdings and deductions for two out of the 25 payroll transactions tested. We reported similar findings in previous State Auditor reports.

Sound accounting controls require supporting documentation to be maintained and filed in an orderly manner to support all recorded transactions.

We again recommend that the Commission develop and implement procedures to ensure proper accountability and record retention to support all payroll withholding transactions. The procedures should include access to documents, sign-out procedures, etc.

### **Maintenance of Personnel Records**

During the test of employees who terminated employment, we noted two instances where information documented in the employees' payroll file did not agree to information documented in their personnel file. A pay increase was not documented on the South Carolina State Museum Notification of Personnel Action Form maintained in the personnel file for one employee and the termination date documented in the employee's personnel file differed from the termination date documented on the Personnel Action Form (PAF) filed in the payroll file for a second employee.

While performing a test of new hires, we also noted that for three employees the initial hourly pay documented on the PAF differed from the initial hourly pay documented in the personnel files.

Commission personnel stated the inconsistencies were due to the fact that personnel records were not updated in a timely manner.

An effective system of internal controls includes control procedures to ensure that the entity prepares and maintains documentation to support all personnel and payroll actions. In addition, controls should be in place to ensure that records which are independently maintained are periodically reconciled to ensure timely detection and correction of errors.

We recommend that the Commission develop and implement procedures to ensure that documentation supporting employee payroll and personnel actions is maintained accurately by both personnel and payroll areas.

#### Base Hours

The Commission allows security personnel to leave 2.5 hours early the last day of each pay period in lieu of taking two 15 minute breaks each day.

The Office of Human Resource's Overtime Policy states that rest periods or "coffee breaks" of short duration must be counted as hours worked. One morning and one afternoon "coffee break" of no more than fifteen (15) minutes each is permitted. Breaks shall not be used to allow an employee to come in late, leave early, or to extend the lunch period.

We recommend the Commission implement policies and procedures to ensure that breaks are taken in accordance with Office of Human Resource regulations.

## Termination Pay

During our test of terminations, we determined the Commission failed to pay accrued compensatory leave of eight hours or \$93 for one employee. We also determined the Commission overpaid one employee \$9 because personnel used a 1950 hour base rate instead of a 2080 hour base rate when calculating the employee's accrued annual leave payout. We reported similar findings in previous State Auditor reports.

A well-designed and an effective internal control system includes independent reviews of payroll calculations and verification of support documentation used in those calculations. 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 a salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due. Further, Section 19-708.04(E) of the Office of Human Resource Regulations states that all nonexempt employees shall be compensated for all holiday compensatory time upon separation from employment.

We again recommend the Commission implement controls to ensure that payments to employees are calculated correctly. We also recommend that the Commission develop and implement procedures to require an independent check of the mathematical accuracy of the calculations and verification of documentation supporting the calculations. The reviewer should sign and date the documents to demonstrate that the information has been properly reviewed and verified. Further, we recommend the Commission pay the accrued compensatory time that was due.

### Variance Explanations

Our comparison of the percentage change in personal service expenditures to the percentage change in employer contributions expenditures from fiscal year 2004 to fiscal year 2005 yielded significant variances in the general and earmarked funds. Commission personnel were unable to provide adequate explanations for these variances; therefore, we were unable to determine if the increases/decreases between years were reasonable.

A good system of internal controls requires management to be sufficiently involved in the day-to-day operations to identify significant variances in accounts. Variance reports or interim financial reports should be used to monitor such operations.

We recommend the Commission monitor expected results with actual results continually to ensure that the accounting system includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision making.

### **RECONCILIATIONS**

Monthly reconciliations of federal funds account balances by project/phase code were not performed during fiscal year 2005. A similar finding was reported in previous State Auditor reports. In addition, the Commission did not post opening balance entries to record the carry forward of fiscal year 2004 ending cash balances for earmarked or federal fund accounts. As a result, the cash balances as recorded in SABAR for these accounts did not agree to cash balances as reported on the Comptroller General's STARS reports.

Commission personnel stated these cash balances were not carried forward due to uncertainty of the source and accuracy of the balances. Also, reconciliations of federal funds were not performed because a higher priority was placed on other accounting activities during the fiscal year.

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 CSA 467CM and agency accounting records. Errors discovered in 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.

Again, we recommend that 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.

## **CLOSING PACKAGES**

### **Introduction**

The Office of the Comptroller General obtains generally accepted accounting principles (GAAP) information from agency-prepared closing packages to use in preparing the State's financial statements. We determined that the Commission's fiscal year 2005 closing packages submitted to the Comptroller General contained errors.

To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Section 1.7 of the Comptroller General's 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." Also, Section 1.7 requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records and

completion of the reviewer checklist and lists of the minimum review steps to be performed. Finally, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

The following describes the errors noted on the 2005 closing packages.

#### Capital Assets

The Commission's accounting records did not support the amount reported as construction-in-progress on the capital assets summary form. In addition, the listing supporting the Commission's personnel property assets did not provide sufficient information to ensure proper accountability over assets. That is, the listing did not include asset identification numbers, room locations, serial numbers, etc., for each asset.

Similar findings have been reported in previously issued State Auditor reports.

Section 3.8 through 3.11 of the GAAP Manual provides guidance for agencies reporting capital assets transactions and balances in closing packages. In addition, an effective internal control system requires an entity to develop and implement controls to ensure the timely detection and correction of errors by employees performing their daily job functions.

#### Miscellaneous Revenues

The Commission's unwritten policy requires people who rent Museum facilities to submit payment within 30 days of invoice. Our review of the accounts receivable closing package support documentation indicated that several of the invoiced items were outstanding more than 30 days. Several of the individual accounts were outstanding for as much as three months, with the oldest account dated April 2005. Similar findings have been reported in previously issued State Auditor reports.

## Recommendation

We recommend that the Commission ensure that all closing packages are completed and reviewed by employees who are familiar with GAAP reporting requirements and closing package instructions. We also recommend that the Commission develop and implement stronger procedures to maintain accountability over capital assets. Finally, we recommend that the Commission develop and implement formal written procedures to ensure the timely collection of accounts receivables.

### **INVENTORY OF PERSONAL PROPERTY**

The Commission did not perform an annual inventory of personal property in fiscal year 2004-2005. A similar finding was reported in fiscal years 2003 and 2002.

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, states, "The head of each department, agency or institution of this state is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables. The State Auditor shall make an audit of this property as he considers necessary or when requested to do so."

We recommend the Commission develop and implement procedures to ensure that an inventory of personal property is completed annually and the results of the inventory are documented and retained for audit purposes. Inventory adjustments (i.e., additions, deletions, etc.) should be supported by original source documentation and reconciled to the agency's general ledger and/or subsidiary ledger.

## **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, 2003, and dated September 17, 2004. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2004. We determined that the Commission has taken adequate corrective action on the findings regarding Schedule of Federal Financial Assistance, Receipt of Revenue and Allocation of Rental Charges. We determined the other deficiencies described in our prior report still exist; consequently we have repeated similar findings in Section A herein: Reconciliations, Closing Packages, Payroll and Inventory of Personal Property.



## **MANAGEMENT'S RESPONSE**

## PAYROLL

### Authorizations for Payroll Deductions

The Museum conducted an internal audit of payroll deductions in July 2004 in response to audit findings for 2003 fiscal year. We discovered missing, incorrect, and/or incomplete supporting documentation for several employee deductions. We reviewed all active payroll files and created appropriate supporting documentation where needed. However, two files were overlooked. Both employees have been with the Museum for a long time and the deductions in question date back many years. We have taken steps to correct both files.

All payroll transactions are supported by appropriate documentation. The source document is maintained and filed with the employees' payroll file. We will continue to strengthen our procedures to ensure records are complete and kept secure.

### Maintenance of Personnel Records

While discrepancies were noted between an employee's OHR profile and internal payroll files, employees were compensated correctly. OHR profiles were not being updated timely and Payroll, from time to time, properly changed pertinent information, such as termination date, salary rate, etc., on supporting documentation submitted by HR. These two factors caused inconsistencies between the Personnel records and the Payroll records. Regardless, compensation was not comprised.

OHR profiles will be updated timely and a continuing effort to ensure Personnel file and Payroll file are in agreement will be reinforced.

### Base Hours

FTE Security Personnel's schedule reflected alternating weeks of 37.5 and 40 hour work weeks. Payroll, who assumed these were 37.5-hour employees working 40 hours due to staff shortages, considered these employees 37.5-hour employees and based their hourly rate on 1950 hours. However, HR considered these employees 40-hour employees. These employees adjusted their work-week to 37.5 hours by skipping afternoon and/or morning breaks.

Corrective Action was taken immediately. Management and Security Personnel were informed of OHR's overtime policy which states breaks shall not be used to allow an employee to come in late, leave early, or to extend the lunch period. Museum personnel will adhere to such policy and working hours WILL NOT be adjusted for skipping afternoon and/or morning breaks. The hourly rate for 40-hour employees will be based on 2080 hours.

### Termination Pay

Two incidents of incorrect termination pay were discovered—both involving accrued compensatory leave. In one case, the employee transferred to Midlands Tech and the HR manager assumed compensatory leave transferred to Midlands Tech. In the second case, an employee transferred to SLED and was compensated for accrued compensatory leave, however at the wrong rate—hourly rate based on 37.5 hours and should have been 40 hours (see Base Hours above).

Museum will compensate the employee who transferred to Midlands Tech and 40-hour employees' hourly rate will be based on 2080 hours.

### Variance Explanations

The Museum's Personnel Services to Employer Contribution ratio remained consistent over the last two years ranging from 32% to 35% in both major funding sources (State and Earmarked). At the time of this audit release, the Accounting Manager has not been able to allocate sufficient time to further analyze this variance. However, this variance will be reconciled and an explanation, kept with the audit papers, will be reviewed by the Executive Director.

### RECONCILIATIONS

All funds were reconciled, however opening balances were not entered in to SABAR. Therefore, cash balances required a "note" on Monthly Reconciliations stating reason for differences.

Federal grants continue to be reconciled and closed. Out of 29 open grants at the end of FY05, 11 were reconciled and closed in FY06. The remaining grants date from 1990-1999 and efforts are being made to locate accounting records to assist with reconciling these old grants. Opening Balances were not posted in SABAR due to their uncertainty of source and accuracy of the balances.

All Opening Balances will be posted in SABAR and adjusting entries will be made as needed. Work continues on reconciling and closing the remaining Federal Grants.

### CLOSING PACKAGES

#### Capital Assets

OPT's construction-in-progress balances was not entered in to SABAR and our Capital Assets listing provides little information regarding location, description, capital asset number, serial number, etc.

Inventory has been done for FY06 and list of such items will be inclusive. OPT's construction-in-progress and inventory values will be entered in to SABAR.

#### Miscellaneous Revenues

The Museum Commission exercises great care with collecting revenue. Our invoices request payment within 30 days, however some clients require more time for processing payment. Non-collection of earned revenue rarely occurs, except in cases of NSF checks, which yield extremely low amounts for the fiscal year.

However, the Museum will develop a policy for accounts receivable.

### INVENTORY OF PERSONAL PROPERTY

Inventory of Personal Property was conducted at the end of FY06.

5 copies of this document were published at an estimated printing cost of \$1.61 each, and a total printing cost of \$8.03. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.