

**SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2003

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State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 20, 2004

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Archives and History (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2003, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

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

- We inspected selected recorded journal entries and all 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 Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2003, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2003.

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, 2003, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2003, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

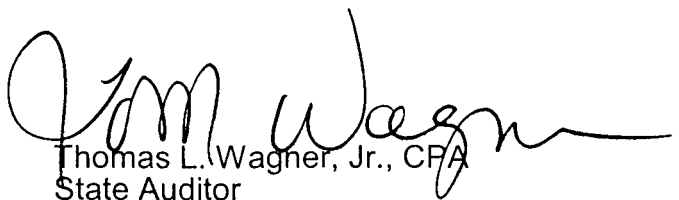
10. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2002 and 2001, to determine if adequate corrective action has been taken.

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

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of 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. of the Comptroller General's Policies and Procedures Manual (STARS manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports ". . . provide significant assurances that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Report are proper . . . To ensure adequate error detection and to satisfy audit requirements," agencies are required to perform monthly reconciliations of cash, revenues, and expenditures.

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.

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

We reviewed fiscal year 2003 reconciliations in detail and noted the following deficiencies in the Department's reconciliation procedures:

1. General and Earmarked expenditure reconciliations were not signed and dated by the preparer or the reviewer.
2. Federal reconciliations were not signed and dated by the reviewer for all fiscal months except FM12 and FM13.
3. FM03 and FM07 revenue reconciliations were not signed and dated by the reviewer.

4. Cash reconciliations were not signed and dated by the reviewer.
5. Amounts in the Department's records differed from those on the Comptroller General's fiscal month 13 reports for one cash balance. This balance was not promptly corrected in the Agency's accounting records and/or STARS as appropriate.

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

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

ACCOUNTING FOR FEDERAL FUNDS

During our review of the Department's fiscal year (FY) 2003 Schedule of Federal Financial Assistance (SFFA), we noted that the Department failed to properly report all activity for its Historic Preservation grant (CFDA number 15.904). The errors were precipitated by the fact that the Department had recorded the monies in an earmarked account rather than in a federal account as required under State regulations. Because the grant award documents required the Department to comply with federal guidelines (including OMB Circular A-133), we determined that the grants were indeed federal. The grant ending cash balance in the earmarked account at June 30, 2003 was \$460,608.

The Comptroller General's Policies and Procedures Manual (STARS Manual) instructs agencies to report accounts associated with funds received from the federal government, either directly or as an allocation from another agency in the 5xxx series (e.g. federal funds).

We recommend that the Department follow STARS Manual requirements to account for its Historic Preservation grant funds. The Department should reclassify the FY03 ending cash balance from the earmarked account to the federal account and properly report the activity on its SFFA in accordance with the State Auditor's letter of 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 Department for the fiscal year ended June 30, 2002 and 2001, and dated October 9, 2002. We determined that the Department has taken adequate corrective action on each of the findings except for the weaknesses described in the comments titled Reconciliations and Accounting for Federal Funds. We have repeated these deficiencies in Section A of this report.

MANAGEMENT'S RESPONSE



January 28, 2005

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, 2003, we would like to address the findings.

RECONCILIATIONS: Items 1, 2, 3, and 4 refer to reconciliations not being signed and dated by the reviewer. Our accounting staff consists of 3 people who each have a part in preparing reconciliation documents. The documents are shared automated files that make it difficult to separate the preparer and reviewer.

Item 5 refers to an ongoing problem with credit card and Internet sales in our Sale of Publications Revenue accounts. The Treasurer's Office records transactions as batch totals at the end of each day and supplies our office with the total. We make every effort to match our receipts to the total, but often a correction is needed by the Treasurer's Office. Until they identify the agency the revenue belongs to and make the correction, we will not be in agreement. It is more difficult to correct at year-end when final reports are not received until the middle of August. We have no choice but to accept the cash total they have on file. However, during FY04 and FY05 the exceptions in electronic sales were fewer. Reconciliations are prepared monthly and timely corrections are easily tracked through the Journal Vouchers files.

ACCOUNTING FOR FEDERAL FUNDS: The federally mandated historic preservation program referred to does not fall under the Historic Preservation Grant CFDA number 15.904, nor does it fall under OMB Circular A-133 or the Cash Management Improvement Act. There are no federal restrictions or Project and Phase Code associated with the program. Although it is deposited into an earmarked account (authorized by Section 35.3 of the Appropriation Act in 1988-89) the revenue is recognized by the use of a federal revenue object code, which was the result of a recommendation by the State Auditor's Office in a prior year. The footnote pertaining to the state preservation program on all Schedules of Federal Financial Assistance was also the result of a S.A.O. recommendation. This finding has been on going since 2001 while the program has existed since 1985. For a more detailed explanation of the program, please see the unpublished response to the last audit. In an effort to resolve the matter, we will seek and opinion and approval of the State Comptroller General.

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

Yours very truly,

Rodger E. Stroup, PHD
Director

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