

SOUTH CAROLINA MUSEUM COMMISSION

COLUMBIA, SOUTH CAROLINA

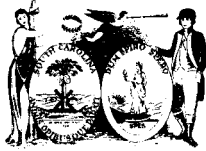
STATE AUDITOR'S REPORT

JUNE 30, 2003

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 17, 2004

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, 2003, 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. Our finding as a result of these procedures is presented in Receipt of Revenue in the Accountant's Comments section of this report.

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

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, 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. Our findings as a result of these procedures are presented in Disbursements in the Accountant's Comments section of this report.

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**

- We inspected selected recorded journal entries 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 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 reconciliations prepared by the Commission for the year ended June 30, 2003, and inspected 100% of the 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 tested 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.

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 2003.

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Museum Commission
September 17, 2004

Our findings as a result of these procedures are presented in Inventory of Personal Property and Allocation of Rental Charges 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, 2003, 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, 2003, 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

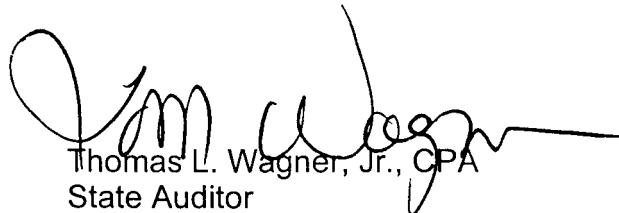
10. **Status of Prior Findings**

- 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 Commission resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken.

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 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.


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

Monthly reconciliations of revenue and expenditure accounts were not prepared for the months of July 2002 through June 2003. Federal funds account balances by project/phase code were not reconciled during fiscal year 2003. A similar finding was reported in previous State Auditor reports.

In May 2004 Commission personnel reconciled its fiscal month 13 cash, revenue and expenditure accounts to the Comptroller General's accounting records (STARS). However, we noted that some agency recorded federal balances did not agree to the balances reported on the Comptroller General Trial Balance by Subfund, Project, and GLA (CSA 467CM) report and/or the agency prepared Schedule of Federal Financial Assistance because the Commission did not reconcile its accounting records to the CSA 467CM report.

The Commission has written procedures that require personnel to prepare monthly reconciliations; however, the procedures have not been followed. As a result, differences that would normally be identified and timely corrected go undetected and uncorrected.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS) manual requires agencies to prepare a reconciliation of cash, revenue and expenditure account balances monthly. Section 2.1.7.20 C. requires reconciliations to be prepared timely and signed and dated by the preparer and be independently reviewed and approved (evidenced by signature and date). Errors discovered in the reconciliation process should be promptly corrected. Further, Section 2.1.7.20 C. requires agencies with federal subfunds to perform monthly reconciliations between the CSA 467CM and agency accounting records.

Again, we recommend that the Commission follow its stated procedures and the requirements of the STARS manual and prepare timely month-end reconciliations.

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 submitted to the Comptroller General certain incorrectly prepared and/or misstated fiscal year-end 2003 closing packages.

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 2003 closing packages.

Capital Assets

The capital assets closing package included the following errors.

1. The capital assets summary form reported year-end construction-in-progress of \$464,206. This balance did not agree with the year-end balance reported on the Statewide Permanent Improvement Reporting System (SPIRS) report (GSP703NP). The Commission's closing package was understated by approximately \$38,500.

2. A listing supporting the Commission's personnel property assets did not provide sufficient detail. For example the listing did not include asset identification numbers, room locations, serial numbers, etc.

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.

Compensated Absences

The following errors were noted during our review of the compensated absences closing package.

1. The compensated absences accrual for two of eight employees tested was overstated because Commission personnel used the employee pay rate that was effective July 1, 2003.
2. The leave balance for one of the eight employees tested was overstated because the employee's leave was not submitted timely.
3. The schedule used to support holiday and compensatory leave was understated due to errors made while preparing the schedule (i.e., one employee was omitted from the schedule, the wrong hourly rate was used for another employee, and an incorrect number of hours earned was reported for a third employee).

The net effect of the errors was an understatement of less than \$100. However, the frequency of occurrence on such a limited number of employees tested indicates a weakness in internal control.

Miscellaneous Revenues

The Commission's policy specifies that payment is to be remitted 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 more than three months, with the oldest account dated September 2002.

The Commission does not currently have a process for writing off accounts receivables. Considering the Commission's volume of accounts receivable activity, it does not appear to be necessary for the Commission to develop such a policy at this time. However, the Commission needs to develop procedures to ensure timely collection of its accounts receivables.

Recommendation

The errors noted in the capital assets and compensated absences closing packages could have been prevented if Commission personnel had exercised due professional care. We recommend 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 the Commission develop and implement stronger procedures to maintain accountability over capital assets. In addition we recommend that the Commission ensure that leave documents are submitted timely to ensure that the compensated absence liability accurately reflect current leave balances. Finally, we recommend that the Commission establish procedures to ensure the timely collection of accounts receivables.

PAYROLL

Pay Schedule

Section 72.24 of the 2002-2003 Appropriation Act provides for a regular and permanent schedule for payment of employees and states, "...it is hereby established that the payroll period shall begin on June 2, of the prior fiscal year with the first pay period ending on June 16 ... The payroll period shall continue thereafter on a twice-monthly schedule as established by the Budget and Control Board." Furthermore, the section specifies that the Budget and Control board is authorized to approve any changes to this schedule where circumstances are deemed justifiable. Each year the Appropriation Act contains similar language.

We inspected personnel and payroll records of employees who were hired and terminated employment with the Commission during fiscal year 2002-2003. We selected 25 employees to test each process. Based on our tests we determined that the Commission did not adhere to the payroll schedule described in Section 72.24 of the Appropriation Act. Payments made to three employees from the new hire test and payments made to three employees from the termination test were not paid timely. Five of the six discrepancies occurred because the employees' timesheets were not submitted to the Human Resources Department timely. The timesheet for the sixth employee was submitted timely. Commission personnel could not explain why the employee wasn't paid timely. A similar finding was reported for fiscal years 2002 and 2001.

In addition to the findings described in the preceding paragraph, we noted that two employee timesheets were dated after the employees' termination date.

We again recommend the Commission revise its procedures to ensure that it pays its employees in accordance with the State's established payroll schedule. In addition, controls should be in place to ensure that transactions are properly and timely processed.

Calculation of Pay

For the same 50 employees selected in the test of new hires and the test of terminations we found that Commission personnel made errors when calculating employee pay. The errors affected four employees and resulted in overpayments to three employees totaling \$2,481 and an underpayment to one employee of \$207. One of the employees who was overpaid notified and repaid the Commission. However, the Commission did not correct the error on its books until May 2004. Similar findings related to pay calculations have been reported in fiscal years 2002, 2001, 2000, 1999, and 1998.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, stipulates that it is unlawful for anyone to receive a salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. In addition, a well-designed and effective internal control system includes procedures to ensure that calculations are supported by source documentation (e.g., timesheets, employee profiles, etc.). Effective controls also require independent review and verification of calculation and ensure that amounts used in calculations agree to support documentation.

We again recommend that the Commission develop and implement procedures to ensure that payments to employees are correctly calculated. We recommend that the Commission strengthen procedures to require an independent review of payroll calculations to ensure that the calculations are mathematically accurate and agree to source documentation. The independent review should be documented (i.e., signed and dated by the reviewer).

DISBURSEMENTS

Timeliness of Payment

We tested 50 non-payroll disbursement transactions in the test of cash disbursements and the cut-off test of expenditures. Three of the transactions tested were not paid within 30 days of the invoice date. The invoices were paid two to four months late. According to Commission personnel, the late payments were attributable to turnover in accounting personnel.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods or services.

We recommend the Commission develop and implement procedures to ensure compliance with Section 11-35-45.

Purchase Orders

While examining the support documents related to one non-payroll disbursement transaction, we determined that the attached purchase order was not valid. The Commission leases a car from the State motor pool. Each year it creates a blanket purchase order to attach to the monthly remittance. The Commission issued a new purchase order for a new vehicle lease initiated in March 2003; however the information regarding the vehicle tag number was not updated from the prior year's purchase order.

Effective internal controls ensure that employees initiating accounting transactions compare data from the voucher document to support documentation before processing to ensure that the purchase is valid and supported by original source documentation. Accounting transactions should also be independently reviewed prior to approval.

We recommend that the Commission develop and implement procedures to ensure that accounting transactions are supported by original source documentation and independently reviewed prior to processing.

Duplicate Payment

We determined that the Commission used one invoice to pay two separate vouchers to two separate vendors. This error resulted in an overpayment of approximately \$1,400. The error was discovered by Commission personnel, and subsequently the Commission was reimbursed for the erroneous payment. In addition, the payment made to the correct vendor was several months late.

The Commission's procurement procedures require the preparer to complete an A/P Auditor's Checklist. The steps on the checklist include verifying that the purchase order payee and invoice payee match and that an original invoice is attached.

We recommend the Commission ensure that personnel responsible for processing, reviewing and approving accounting transactions are properly trained. The employees should be familiar with the agency's accounting policies and procedures and State laws, rules and regulations to enable them to detect and correct errors.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To prepare the annual Statewide Single Audit Report, the Office of the State Auditor requires each State agency receiving federal funds to prepare and submit a schedule of federal financial assistance (SFFA) containing all of its federal funds. During our review of the schedule and our comparison of SFFA balances to SABAR and STARS, we noted the following.

- All three sources (SFFA, SABAR, STARS) reported different balances and the Commission had not prepared a reconciliation explaining the differences between the three sources.

- The Trial Balance by Subfund, Project, and GLA (CSA 467CM) reported activity for the IMLS General Operating grant (project/phase code 00210), however the grant was not included in the agency prepared SFFA.

A similar finding was reported in the State Auditor's report for fiscal year 2002, 2001, 2000, 1999, and 1998.

The Office of the State Auditor's letter of instruction provides agencies with guidance and instructions on how to prepare the SFFA. Section (B) of attachment 1 states, "The amounts shown on the Total Federal Assistance line must be in agreement with the General Ledger (Receipts, Expenditures, Other Additions, Other Deductions, Ending Fund Balance). All reconciling items should be fully explained."

We continue to recommend the Commission assign responsibility for preparing and reviewing its federal schedule to knowledgeable and well-trained employees. The Commission should provide its staff with the necessary training and should develop and implement written procedures with respect to the preparation and review of the Commission's schedule of federal financial assistance. The procedures should incorporate the requirements outlined in the Office of State Auditor's letter of instructions.

RECEIPT OF REVENUE

The test of cash receipts included 25 deposit packages each of which included one or more individual cash receipts. We could not determine if two of the deposit packages were deposited timely because the Commission failed to document the date the funds were collected. We also selected 25 deposit packages in the cut-off test of cash receipts. We were unable to determine if five cash receipts were deposited timely and were deposited in the proper fiscal year. We reported a similar finding in 2001, 2000, 1999, and 1998.

Cash is an asset which is most vulnerable to loss, therefore to be effective, agency internal control procedures must initiate control over cash receipts immediately upon collection (e.g., prepare a cash receipt document, date-stamp the receipt document, etc.) and require timely deposit of cash receipts. Section 72.1. of the fiscal year 2002-2003 Appropriation Act requires agencies to deposit cash receipts weekly when practical.

We again recommend the Commission implement procedures to ensure that each cash receipt/deposit transaction documents the date of receipt and is deposited timely.

ALLOCATION OF RENTAL CHARGES

The Commission does not have a written policy related to the allocation of rental charges. The Commission expended approximately \$3 million on rent in fiscal year 2002-2003. Approximately \$2.6 million (87 percent) was charged to State general fund appropriations, approximately \$400 thousand (12 percent) to earmarked funds and approximately \$9 thousand (less than 1 percent) to federal funds. Because the Commission does not have a formal policy documenting its method of allocation, we were unable to determine if its allocation was fair and equitable. A similar finding was reported in the fiscal years 2002, 2001, and 2000 reports.

Section 72.38 of the fiscal year 2002-2003 Appropriation Act states, "All departments and agencies against which rental charges are assessed and whose operations are financed in whole or in part by federal and/or non-appropriated funds are directed to apportion the payment of such charges equitably among all such funds, so that each shall bear its proportionate share."

We recommend the Commission develop and implement policies and procedures to ensure that rental charges are allocated equitably among all funds. The Commission should ensure that its allocation methodology is sound and well documented.

INVENTORY OF PERSONAL PROPERTY

The Commission did not perform an annual inventory of personal property in fiscal year 2002-2003. A similar finding was reported in the preceding fiscal year.

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, 2002, and dated September 18, 2003. We determined that the Commission has taken adequate corrective action on the findings regarding Record Retention, Supplemental Salary and Internal Control. 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

Schedule of Federal Financial Assistance

Receipt of Revenue

Allocation of Rental Charges

Inventory of Personal Property

MANAGEMENT'S RESPONSE

Material Weakness

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.

Listed below are the identified Material Weaknesses for the agency for the audit covering fiscal year ending June 2003.

1. RECONCILIATIONS

Monthly reconciliations of revenue and expenditure accounts were not prepared for the months of July 2002 through June 2003. Federal funds account balances by project/phase code were not reconciled during fiscal year 2003. A similar finding was reported in previous State Auditor reports.

In May 2004, Commission personnel reconciled its fiscal month 13 cash, revenue and expenditure accounts to the Comptroller General's accounting records (STARS). However, we noted that some agency recorded federal balances did not agree to the balances reported on the Comptroller General Trial Balance by Subfund, Project, and GLA (CSA 467CM) report and/or the agency prepared Schedule of Federal Financial Assistance because the Commission did not reconcile its accounting records to the CSA 467CM report.

The Commission has written procedures that require personnel to prepare monthly reconciliations; however, the procedures have not been followed. As a result, differences that would normally be identified and timely corrected go undetected and uncorrected.

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS) manual requires agencies to prepare a reconciliation of cash, revenue and expenditure account balances monthly. Section 2.1.7.20 C. requires reconciliations to be prepared timely and signed and dated by the preparer and is independently reviewed and approved (evidenced by signature and date). Errors discovered in the reconciliation process should be promptly corrected. Further, Section 2.1.7.20 C. requires agencies with federal subfunds to perform monthly reconciliations between the CSA 467CM and agency accounting records.

Recommendation -

Again, we recommend that the Commission follow its stated procedures and the requirements of the STARS manual and prepare timely month-end reconciliations.

Current Status -

- *The new Fiscal Manager began on 10/17/03. Beginning in November 2003 and current as of now, monthly reconciliations of State and Earmarked funds have been timely*

completed, reviewed, and approved. All errors discovered in the reconciliation process have been promptly corrected.

- Due to limited staff and time constraints, reconciling federal funds account balances is now in progress. Eleven grants are still open on the CG's books with balances ranging from a negative 37K to a positive 67K. This task requires intensive analysis and corrective action to close these grants.*

Future Action -

- Reconciliations of State and Earmarked funds will continue to be preformed on a timely basis.*
- Federal funds account balances will be completed and appropriate action will be taken to close these account by March 2005.*

2. GAAP CLOSING PACKAGES

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 submitted to the Comptroller General certain incorrectly prepared and/or misstated fiscal year-end 2003 closing packages.

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 2003 closing packages.

Capital Assets

The capital assets closing package included the following errors:

1. The capital assets summary form reported year-end construction-in-progress of \$464,206. This balance did not agree with the year-end balance reported on the Statewide Permanent Improvement Reporting System (SPIRS) report (GSP703NP). The Commission's closing package was understated by approximately \$38,500.
2. A listing supporting the Commission's personnel property assets did not provide sufficient detail. For example the listing did not include asset identification numbers, room locations, serial numbers, etc.

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.

Compensated Absences

The following errors were noted during our review of the compensated absences closing package:

1. The compensated absences accrual for two of eight employees tested was overstated because Commission personnel used the employee pay rate that was effective July 1, 2003.
2. The leave balance for one of the eight employees tested was overstated because the employee's leave was not submitted timely.
3. The schedule used to support holiday and compensatory leave was understated due to errors made while preparing the schedule (i.e., one employee was omitted from the schedule, the wrong hourly rate was used for another employee, and an incorrect number of hours earned was reported for a third employee).

The net effect of the errors was an understatement of less than \$100. However, the frequency of occurrence on such a limited number of employees tested indicates a weakness in internal control.

Miscellaneous Revenues

The Commission's policy specifies that payment is to be remitted 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 more than three months, with the oldest account dated September 2002.

The Commission does not currently have a process for writing off accounts receivables. Considering the Commission's volume of accounts receivable activity, it does not appear to be necessary for the Commission to develop such a policy at this time. However, the Commission needs to develop procedures to ensure timely collection of its accounts receivables.

Recommendation -

The errors noted in the capital assets and compensated absences closing packages could have been prevented if Commission personnel had exercised due professional care. We recommend 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 the Commission develop and implement stronger procedures to maintain accountability over capital assets. In addition, we recommend that the Commission ensure that leave documents are submitted timely to ensure that the compensated absence liability accurately reflects current leave balances. Finally, we recommend that the Commission establish procedures to ensure the timely collection of accounts receivables.

Current Status -

- *All Closing Packages for FY04 were independently reviewed and submitted timely to the Comptroller General.*
- *All Closing Packages are accompanied by supporting documentation.*
- *Capital Assets Closing Package was balanced to the SPIRS report and a paper audit was performed on personal property.*
- *Compensated Absences Closing Package was diligently prepared to ensure proper reporting, however late submission of leave requests continue to occur.*
- *Miscellaneous Revenues Closing Package was reviewed with each Department Director, information regarding outstanding invoices was carefully reviewed, and further follow-up was taken to ensure revenue was received in the first few months of the following fiscal year.*

Future Action -

- *Further efforts will be taken to strengthen the reliability of supporting documentation and ensure reported amounts are complete and accurate on all Closing Packages.*
- *A listing supporting the Commission's personnel property assets will be prepared providing sufficient detail such as asset identification numbers, room locations, serial numbers, etc.*
- *The Fiscal Manager, when necessary, will continue to seek third party assistance and review of these required packages prior to their submittal.*

3. PAYROLL

Pay Schedule

Section 72.24 of the 2002-2003 Appropriation Act provides for a regular and permanent schedule for payment of employees and states, "...it is hereby established that the payroll period shall begin on June 2, of the prior fiscal year with the first pay period ending on June 16. The payroll period shall continue thereafter on a twice-monthly schedule as established by the Budget and Control Board." Furthermore, the section specifies that the Budget and Control board is authorized to approve any changes to this schedule where circumstances are deemed justifiable.

We inspected personnel and payroll records of employees who were hired and terminated employment with the Commission during fiscal year 2002-2003. We selected 25 employees to test each process. Based on our tests, we determined that the Commission did not adhere to the payroll schedule described in Section 72.24 of the Appropriation Act. Payments made to three employees from the new hire test and payments made to three employees from the termination test were not paid timely. Five of the six discrepancies occurred because the employees' timesheets were not submitted to the Human Resources Department timely. The timesheet for the sixth employee was submitted timely. Commission personnel could not explain why the employee wasn't paid timely. A similar finding was reported for fiscal years 2002 and 2001.

In addition to the findings described in the preceding paragraph, we noted that two employee timesheets were dated after the employees' termination date.

Recommendation -

We again recommend the Commission revise its procedures to ensure that it pays its employees in accordance with the State's established payroll schedule. In addition, controls should be in place to ensure that transactions are properly and timely processed.

Current Status -

- *New personnel was assigned to process payroll September 2003.*
- *The Museum began using SABAR to process payroll transactions beginning November 16, 2003 payroll. Prior to this, payroll was done manually. This automation assists with timeliness and accuracy.*
- *Employees are reminded to submit time sheets and/or payroll changes before the end of each payroll period.*
- *A new procedure has been implemented where the Department Directors are provided a master list before the end of each payroll period of all active hourly employees in their department. The Department Directors then sign all time sheets, initial the accompanying master sheet, and submits all documentation to the payroll accountant.*

Future Action -

- *The Fiscal Manager and the Payroll Accountant will continue to stress to Department Directors and employees the importance of accuracy and timely submission of time sheets. Emphasis will be placed on new hires and terminations.*
- *Finance staff will notify Executive Director of Departments who continually have issues with timely completion of the required time documents.*

Calculation of Pay

For the same 50 employees selected in the test of new hires and the test of terminations, we found that Commission personnel made errors when calculating employee pay. The errors affected four employees and resulted in overpayments to three employees totaling \$2,481 and an underpayment to one employee of \$207. One of the employees who were overpaid notified and repaid the Commission. However, the Commission did not correct the error on its books until May 2004. Similar findings related to pay calculations have been reported in fiscal years 2002, 2001, 2000, 1999, and 1998.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, stipulates that it is unlawful for anyone to receive a salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. In addition, a well-designed and effective internal control system includes procedures to ensure that calculations are supported by source documentation (e.g., timesheets, employee profiles, etc.). Effective controls also require independent review and verification of calculation and ensure that amounts used in calculations agree to support documentation.

Recommendation -

We again recommend that the Commission develop and implement procedures to ensure that payments to employees are correctly calculated. We recommend that the Commission strengthen procedures to require an independent review of payroll calculations to ensure that the calculations are mathematically accurate and agree to source documentation. The independent review should be documented (i.e., signed and dated by the reviewer).

Current Status -

- *New personnel was assigned to process payroll September 2003.*
- *The Museum began using SABAR to process payroll transactions beginning November 16, 2003 payroll. Prior to this, payroll was done manually. This automation assists with timeliness and accuracy.*
- *Additionally, the Finance Manager reviews supporting documentation and signs all payroll vouchers.*

Future Action -

- *Procedures and forms will be developed to ensure proper calculation and documentation of partial pay, annual leave/comp time payouts, and payroll adjustments which will be reviewed by the fiscal manager.*

4. DISBURSEMENTS

Timeliness of Payment

We tested 50 non-payroll disbursement transactions in the test of cash disbursements and the cut-off test of expenditures. Three of the transactions tested were not paid within 30 days of the invoice date. The invoices were paid two to four months late. According to Commission personnel, the late payments were attributable to turnover in accounting personnel.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods or services.

Recommendation -

We recommend the Commission develop and implement procedures to ensure compliance with Section 11-35-45.

Current Status -

- *Prior audits revealed reoccurring accounting deficiencies which remained unaddressed by the prior Fiscal Manager. At the end of FY03, there was a complete turnover of Accounting Staff so as a result FY04 was spent addressing immediate concerns, clearly defining job responsibilities, on-the-job training, "learning the ropes", and dealing with audit findings from several previous years.*
- *Efforts are clearly showing positive results and we continue to strengthen our daily operation*

Future Action -

- *Develop and implementing written Accounting Policies and Procedures.*

Purchase Orders

While examining the support documents related to one non-payroll disbursement transaction, we determined that the attached purchase order was not valid. The Commission leases a car from the State motor pool. Each year it creates a blanket purchase order to attach to the

monthly remittance. The Commission issued a new purchase order for a new vehicle lease initiated in March 2003; however the information regarding the vehicle tag number was not updated from the prior year's purchase order.

Effective internal controls ensure that employees initiating accounting transactions compare data from the voucher document to support documentation before processing to ensure that the purchase is valid and supported by original source documentation. Accounting transactions should also be independently reviewed prior to approval.

Duplicate Payment

We determined that the Commission used one invoice to pay two separate vouchers to two separate vendors. This error resulted in an overpayment of approximately \$1,400. The error was discovered by Commission personnel, and subsequently the Commission was reimbursed for the erroneous payment. In addition, the payment made to the correct vendor was several months late and resulted in late payment charges being added to the bill.

The Commission's procurement procedures require the preparer to complete an A/P Auditor's Checklist. The steps on the checklist include verifying that the purchase order payee and invoice payee match and that an original invoice is attached.

Recommendation -

We recommend that the Commission develop and implement procedures to ensure that accounting transactions are supported by original source documentation and independently reviewed prior to processing.

We recommend the Commission ensure that personnel responsible for processing, reviewing and approving accounting transactions are properly trained. The employees should be familiar with the agency's accounting policies and procedures and State laws, rules and regulations to enable them to detect and correct errors.

Current Status -

- *Procurement Manager was RIF'd in late FY02, causing Department Directors and other financial personnel to try and carry out Procurement responsibilities. Those duties have recently been assigned to an employee with limited experience in this area; however training and time-on-the-job will resolve any deficiencies.*

Future Action -

- *Continue to strengthen our daily operation by having the new personnel attend procurement training as required and through the fiscal manager's direct oversight of the purchasing function and process.*
- *Prior audits revealed reoccurring accounting deficiencies which remained unaddressed by the prior Fiscal Manager. At the end of FY03, there was a complete turnover of Accounting Staff which caused instability and confusion. FY04 was spent addressing immediate concerns, clearly defining job responsibilities, on-the-job training, "learning the ropes", and dealing with audit findings from several previous years.*

5. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To prepare the annual Statewide Single Audit Report, the Office of the State Auditor requires each State agency receiving federal funds to prepare and submit a schedule of federal financial assistance (SFFA) containing all of its federal funds. During our review of the schedule and our comparison of SFFA balances to SABAR and STARS, we noted the following:

- All three sources (SFFA, SABAR, STARS) reported different balances and the Commission had not prepared a reconciliation explaining the differences between the three sources.
- The Trial Balance by Subfund, Project, and GLA (CSA 467CM) reported activity for the IMLS General Operating grant (project/phase code 00210), however the grant was not included in the agency prepared SFFA.

A similar finding was reported in the State Auditor's report for fiscal year 2002, 2001, 2000, 1999, and 1998. The Office of the State Auditor's letter of instruction provides agencies with guidance and instructions on how to prepare the SFFA. Section (B) of attachment 1 states, "The amounts shown on the Total Federal Assistance line must be in agreement with the General Ledger (Receipts, Expenditures, Other Additions, Other Deductions, Ending Fund Balance). All reconciling items should be fully explained."

Recommendation -

We continue to recommend the Commission assign responsibility for preparing and reviewing its federal schedule to knowledgeable and well-trained employees. The Commission should provide its staff with the necessary training and should develop and implement written procedures with respect to the preparation and review of the Commission's schedule of federal financial assistance. The procedures should incorporate the requirements outlined in the Office of State Auditor's letter of instructions.

Current Status -

- *Due to limited staff and time constraints, reconciling federal funds account balances was delayed but now is in progress. Eleven grants are still open on the CG's books with balances ranging from a negative 37K to a positive 67K. This task requires intensive analysis and corrective action to close these grants.*

Future Action –

- *Federal funds account balances will be completed and appropriate action will be taken to close these account by March 2005. Third party assistance will be solicited to insure proper completion prior to submittal.*

6. RECEIPT OF REVENUE

The test of cash receipts included 25 deposit packages each of which included one or more individual cash receipts. We could not determine if two of the deposit packages were deposited timely because the Commission failed to document the date the funds were collected. We also selected 25 deposit packages in the cut-off test of cash receipts. We were unable to determine if five cash receipts were deposited timely and were deposited in the proper fiscal year. We reported a similar finding in 2001, 2000, 1999, and 1998. Cash is an

asset which is most vulnerable to loss, therefore to be effective, agency internal control procedures must initiate control over cash receipts immediately upon collection (e.g., prepare a cash receipt document, date-stamp the receipt document, etc.) and require timely deposit of cash receipts. Section 72.1. of the fiscal year 2002-2003 Appropriation Act requires agencies to deposit cash receipts weekly when practical.

Recommendation -

We again recommend the Commission implement procedures to ensure that each cash receipt/deposit transaction documents the date of receipt and is deposited timely.

Current Status -

- *Beginning July 1, 2003, a new organizational function, Cash Control, was created with direct reporting status to the Executive Director.*
- *New cash handling and deposit procedures were implemented which include having supporting documentation attached to each deposit, all deposits deposited timely (3 days per week) and date stamped. All tills are balanced to its appropriate software on a daily financial report recap.*
- *All deposits are posted by the Finance department into SABAR within seven days.*

Future Action -

- *Review current procedures and implement any necessary changes.*
- *Written Policies and procedures to be completed by the cash control personnel and approved by Executive Director.*

7. ALLOCATION OF RENTAL CHARGES

The Commission does not have a written policy related to the allocation of rental charges. The Commission expended approximately \$3 million on rent in fiscal year 2002-2003. Approximately \$2.6 million (87 percent) was charged to State general fund appropriations, approximately \$400 thousand (12 percent) to earmarked funds and approximately \$9 thousand (less than 1 percent) to federal funds. Because the Commission does not have a formal policy documenting its method of allocation, we were unable to determine if its allocation was fair and equitable. A similar finding was reported in the fiscal years 2002, 2001, and 2000 reports. Section 72.38 of the fiscal year 2002-2003 Appropriation Act states, "All departments and agencies against which rental charges are assessed and whose operations are financed in whole or in part by federal and/or non-appropriated funds are directed to apportion the payment of such charges equitably among all such funds, so that each shall bear its proportionate share."

Recommendation -

We recommend the Commission develop and implement policies and procedures to ensure that rental charges are allocated equitably among all funds. The Commission should ensure that its allocation methodology is sound and well documented.

Current Status -

- *FY03's rent charges were allocated based on the impact of state funding cuts and transfers to earned revenues as allowed under the flexibility Proviso 72.76.*
- *FY04's rent charges were allocated based on percentage of total revenue budgeted for FY04. Supporting documentation of its allocation method and computation is available.*

Future Action -

- *Written Policies and procedures to be completed by the Fiscal Manger and approved by Executive Director.*

8. INVENTORY OF PERSONAL PROPERTY

The Commission did not perform an annual inventory of personal property in fiscal year 2002-2003. A similar finding was reported in the preceding fiscal year. 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."

Recommendation -

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.

Current Status -

- *Due to limited staff and time constraints, a physical inventory counts was not completed in FY04*
- *Fiscal manager met with appropriate personnel at the Comptroller General's office for clarification of asset definition and assistance...*

Future Action -

- *A physical inventory will be completed prior to the next audit.*
- *Written Policies and procedures to be completed by the Fiscal Manger and approved by Executive Director.*

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