

**SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002 AND 2001

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 9, 2002

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 years ended June 30, 2002 and 2001, 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations, Annual Leave Pay, and Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.


5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the years ended June 30, 2002 and 2001, and tested 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal years 2002 and 2001. Our findings as a result of these procedures are presented in Reconciliations, Annual Leave Pay, Payroll, and Accounting for Federal Funds in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the years ended June 30, 2002 and 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Accounting for Federal Funds in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
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South Carolina Department of Archives and History
October 9, 2002

10. We obtained copies of the schedules of federal financial assistance for the years ended June 30, 2002 and 2001, prepared by the Department and submitted to the State Auditor. We reviewed them to determine if they were 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.

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 Department 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. Furthermore, "Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance by Subfund, Project, and GLA) and the agency's records for each project and phase code." The cited STARS Manual section lists the following reconciliation requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

The cited section goes on to say, "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 2001 reconciliations in detail and noted the following deficiencies in the Department's reconciliation procedures:

1. The person reviewing federal fund reconciliations failed to include the date of when the actual review took place.
2. For general, earmarked, and restricted funds, the preparer did not sign and date each of the monthly reconciliations.
3. The reconciliations for the general, earmarked, and restricted funds were not reviewed by an appropriate official independent of the preparation.

4. General fund reconciliations of cash, revenues, and expenditures were not prepared in an easily understandable format with all supporting working papers maintained for audit purposes.
5. Expenditures were not reconciled to the STARS major object code level.
6. Amounts in the Department's records differed from those on the Comptroller General's fiscal month 13 reports for one cash balance, nine expenditure accounts, and two revenue accounts. These balances were not promptly corrected in the Agency's accounting records and/or STARS as appropriate.

We reviewed fiscal year 2002 reconciliations in detail and noted the following deficiencies in the Department's reconciliation procedures:

1. Many earmarked, restricted, and federal fund reconciliations were not signed and dated by the preparer.
2. Federal fund reconciliations lacked evidence of a review by someone other than the preparer.
3. The Agency's general fund reconciliations were not documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
4. The earmarked and restricted fund reconciliations lacked evidence of an independent review.
5. Amounts in the Department's records differed from those on the Comptroller General's fiscal month 13 reports for two cash balances and five revenue accounts. These balances were 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 three prior reports.

We again recommend the Department establish policies and procedures to ensure that its process for timely prepared and reviewed monthly reconciliations of cash, revenues, expenditures, and federal funds are adequate to comply with all reconciliation, error detection/correction, and documentation 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.

ANNUAL LEAVE PAY

We noted that two of the 25 fiscal year 2002 termination pay transactions tested contained errors resulting in a total overpayment of \$1,463. The errors were a result of the Agency paying employees for unused annual leave that exceeded the maximum allowed. Section 19-709.05 of the State Human Resource Regulations states "Upon separation from State employment a lump-sum payment will be made for unused annual leave, not to exceed forty-five days . . ."

We recommend the Agency abide by the State Human Resource Regulations when calculating termination payments for unused annual leave. Furthermore, the Agency should attempt to recover the overpayments from the terminated employees.

PAYROLL

We noted two instances in which the Department violated State Human Resource (SHR) Regulations. First, the Department did not follow dual employment procedures for two employees who accepted additional temporary, part-time employment with another State agency. Second, we noted one instance in which the Department provided compensation to an employee in excess of the employee's maximum pay band. The employee, who was entitled to a merit increase of 5%, received only a partial increase of 3.6% since her salary reached the maximum of the pay band. In order to circumvent the pay band limitation, Agency personnel paid the employee the remaining annual increase through an additional benefits transaction on the payroll voucher rather than as a salary increase.

SHR Regulation 19-713 states:

1. All dual employment requests must be in writing and contain the following information:
 - a. Name of requesting agency;
 - b. Description of services to be performed, beginning and ending dates of the dual employment, hours of work, and the FLSA status to be performed for the requesting agency;
 - c. Name of employing agency;
 - d. Name of employee, State title of the employee's position, the FLSA status of the employee's position at the employing agency, present annualized salary of employee, and scheduled hours of work at the employing agency;
 - e. Amount and terms of compensation, if applicable; and
 - f. Signature of the agency heads or their designees, of both the requesting and the employing agencies, authorizing the dual employment as well as the signature of the employee.
2. For each dual employment arrangement, both the employing and requesting agency must maintain the written dual employment request.

Furthermore, the regulation specifies that no compensation for dual employment shall be paid to an employee prior to the approval of a dual employment agreement. SHR Regulation 19-705.04 C.1. states that a performance increase shall not place an employee's salary above the maximum of the pay band. Section 8-11-30 of the South Carolina Code of Laws states that it is unlawful for anyone employed by the State to receive salary from the State or any of its departments which is not due. Finally, A strong internal control environment requires that management be conscientious in complying with State laws, rules and regulations.

We recommend the Department review its management practices regarding compliance with State laws, rules and regulations and to establish procedures to ensure its compliance therewith. The Department should also recover the overpayment made to the employee whose salary had reached the maximum of the pay band.

ACCOUNTING FOR FEDERAL FUNDS

During our review of the Agency's fiscal year (FY) 2002 and 2001 Schedules of Federal Financial Assistance (SFFA), we noted that the Agency failed to properly report all activity for its Historic Preservation grant (CFDA number 15.904). The errors were precipitated by the fact that the Agency 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 Agency to comply with federal guidelines (including OMB Circular A-133), we determined that the grants were indeed federal. The remaining balances of grant funds in the earmarked account were \$229,718 for FY02 and \$359,776 for FY01.

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 State regulations in accounting for Historic Preservation grant funds. The Agency should move the FY02 balance of the funds 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, 2000, and dated April 9, 2001. We determined that the Department has taken adequate corrective action on each of the findings except for the weaknesses described in the comment titled Reconciliations. We have repeated these deficiencies in Section A of this report.

MANAGEMENT'S RESPONSE

The management of the South Carolina Department of Archives and History did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated February 11, 2003.

5 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$7.45. The FY 2001-02 Appropriation Act requires that this information on printing costs be added to the document.