

SOUTH CAROLINA ARTS COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 31, 1998

The Honorable David M. Beasley, Governor
and
Members of the Commission
South Carolina Arts 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 Arts Commission, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 2.5 percent of the aggregate amount of all recorded receipts. Our finding as a result of these procedures is presented in Cash Receipts Procedures 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 Commission; and were paid in conformity with State laws and regulations and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 10.9 percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

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South Carolina Arts Commission
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3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 4.4 percent of the aggregate amount of all recorded payroll disbursements. Our finding as a result of these procedures is presented in Final Pay at Termination in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all recorded operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The journal entries selected for testing were chosen randomly. The total of the selected journal entries was 17.9 percent of the aggregate amount of all such recorded transactions. We found no exceptions as a result of the procedures.
5. We tested 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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Accounting Policies and Procedures in the Accountant's Comments section of this report.
6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1997, and tested selected reconciliations of balances in the Commission's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Commission's accounting records or 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.

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7. We tested 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures
8. We reviewed the status of the deficiencies described in the findings reported in the Auditor's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 1995, to determine if adequate corrective action has been taken. [We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 1996.] Our findings as a result of these procedures are presented in Final Pay at Termination and Reconciliations in the Accountant's Comments section of this report.
9. We obtained a copy of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Commission and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Commission. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Commission and submitted to the State Comptroller General and 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. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through ten of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit or review of the Commission's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA ARTS COMMISSION
 Schedule of Expenditures -
 Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$1,071,132	\$1,062,880	\$ 8,252
Employer Contributions	266,103	250,655	15,448
Other Operating	818,142	810,283	7,859
Debt Service - IPP Note:			
Principal	31,889	31,888	1
Interest	7,306	7,306	-
Allocations to Municipalities -			
Restricted	-	-	-
Allocations to Counties -			
Restricted	-	-	-
Allocations to School Districts	-	-	-
Allocations to Other State			
Agencies	-	-	-
Allocations to Private Sector	-	-	-
Aid to Municipalities -			
Restricted	33,830	33,747	83
Aid to Counties - Restricted	27,318	26,400	918
Aid to County Libraries	3,300	3,300	-
Aid to School Districts	145,395	128,237	17,158
Aid to Other State Agencies	147,810	143,048	4,762
Aid to Private Sector	846,766	845,890	876
<i>Special Items:</i>			
Spoleto Festival	163,622	163,622	-
Penn Community Center	40,907	40,907	-
Total Quality Management	<u>3,620</u>	<u>2,995</u>	<u>625</u>
Total Expenditures	<u>\$3,607,140</u>	<u>\$3,551,158</u>	<u>\$55,982</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA ARTS COMMISSION
 Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 174,001	\$ 69,980	\$104,021
Employer Contributions	42,870	18,527	24,343
Other Operating	395,021	81,416	313,605
Debt Service - IPP Note:			
Principal	-	-	-
Interest	-	-	-
Allocations to Municipalities -			
Restricted	27,000	15,682	11,318
Allocations to Counties -			
Restricted	23,000	17,969	5,031
Allocations to School Districts	125,000	81,138	43,862
Allocations to Other State			
Agencies	139,500	109,787	29,713
Allocations to Private Sector	698,850	485,948	212,902
Aid to Municipalities -			
Restricted	-	-	-
Aid to Counties - Restricted	-	-	-
Aid to County Libraries	-	-	-
Aid to School Districts	-	-	-
Aid to Other State Agencies	-	-	-
Aid to Private Sector	-	-	-
<i>Special Items:</i>			
Spoleto Festival	-	-	-
Penn Community Center	-	-	-
Total Quality Management	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$1,625,242</u>	<u>\$880,447</u>	<u>\$744,795</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA ARTS COMMISSION
 Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$1,245,133	\$1,132,860	\$112,273
Employer Contributions	308,973	269,182	39,791
Other Operating	1,213,163	891,699	321,464
Debt Service - IPP Note:			
Principal	31,889	31,888	1
Interest	7,306	7,306	-
Allocations to Municipalities -			
Restricted	27,000	15,682	11,318
Allocations to Counties -			
Restricted	23,000	17,969	5,031
Allocations to School Districts	125,000	81,138	43,862
Allocations to Other State			
Agencies	139,500	109,787	29,713
Allocations to Private Sector	698,850	485,948	212,902
Aid to Municipalities -			
Restricted	33,830	33,747	83
Aid to Counties Restricted	27,318	26,400	918
Aid to County Libraries	3,300	3,300	-
Aid to School Districts	145,395	128,237	17,158
Aid to Other State Agencies	147,810	143,048	4,762
Aid to Private Sector	846,766	845,890	876
<i>Special Items:</i>			
Spoleto Festival	163,622	163,622	-
Penn Community Center	40,907	40,907	-
Total Quality Management	3,620	2,995	625
Total Expenditures	<u>\$5,232,382</u>	<u>\$4,431,605</u>	<u>\$800,777</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA ARTS COMMISSION

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The South Carolina Arts Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

SOUTH CAROLINA ARTS COMMISSION

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Commission budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$3,536,661
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 17C.19.)	29,131
Total Quality Management Program (Proviso 17A.2.)	<u>3,620</u>
Revised Appropriation - Legal Basis	3,569,412
Plus: 1996 Appropriation Brought Forward	
(1997 Proviso 72.44.)	<u>37,728</u>
Legal Basis Appropriation Available for 1997	
Expenditures	<u>\$3,607,140</u>

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the Commission carried forward \$55,357 of unspent State General Fund appropriations from the current year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority. In addition, as provided by Proviso 17A.2. of the 1998 Appropriation Act, the Commission carried forward \$625 of unspent State General Fund appropriations from the current year into the next fiscal year to be expended for Total Quality Management training.

ACCOUNTANT'S COMMENTS

SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL

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 an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

CASH RECEIPTS PROCEDURES

Money collected by the Commission is initially received by an administrative assistant who is responsible for completing a Check/Cash Memo form. The form listing the date of receipt, payee, and amount received is forwarded to an accounting technician who signs the form to acknowledge receipt. The Commission's cash receipts policy requires the accounting technician to prepare the cash receipt and deposit forms within one business day of collection and record the cash transaction. The cash and deposit forms are then placed in a lock bag and taken to the bank by a courier.

We found that the agency did not prepare cash receipt forms or make cash deposits in accordance with its stated policy. Of the 25 receipts tested, we found 17 cash receipt forms were not written and 14 receipts were not deposited within one business day of receipt. We also noted in reviewing the Period Revenue Entries Report (cash receipts ledger) that cash receipts were not recorded timely.

We were told that delays in preparing the cash receipt forms occurred whenever a large number of cash transactions were received. The accounting technician explained that when there was such a heavy volume, he prepared the deposit for the courier and completed the receipt form at a later time. He added that deposit delays also occurred whenever he was absent because his duties had not been assigned to other accounting personnel in his absence.

We recommend the Commission strengthen internal controls over cash receipts and deposit functions. The Commission should designate an alternate to process cash receipts and deposits whenever the accounting technician is not available to ensure that cash receipt

transactions are processed timely. In addition, the Commission should establish procedures to monitor adherence to and the effectiveness of its accounting policies and procedures and to ensure that corrective action is taken whenever deviations are found. Finally we recommend that the administrative assistant complete prenumbered cash receipt forms instead of the Check/Cash Memo forms. As a result, use of the intermediate Check/Cash Memo form is eliminated. Then the accounting technician can record the cash transaction directly from the prenumbered cash receipts.

FINAL PAY AT TERMINATION

The following finding was included in the State Auditor's report on the Commission for fiscal year 1995:

An employee who terminated employment with the agency in fiscal year 1995 was overpaid by \$89 because the Commission paid the employee for working a full pay period although the individual only worked ten of the eleven days in the period.

We recommended the Commission strengthen procedures over payroll computations, include independent verification of pay calculations for partial pay periods and final paychecks, and recover the overpayment. In its response to our comment, the Commission stated,

SCAC will implement its existing policy of having the Human Resource Department and the Accounting Department process each payroll independent of each other, and compare the results, correcting any differences prior to submitting to the Comptroller General via Senior Accountant.

In reviewing the status of the deficiency, we learned that the Human Resource and Accounting Departments still do not compare the independently prepared payroll information. Regarding recovery of the overpayment, an accounting technician said the former employee worked two days to reimburse the agency. However, the agency was unable to provide documentation to support his recollection.

Again we recommend the Commission strengthen procedures over payroll computations and include independent verification (by someone other than the preparer) of pay calculations for partial pay periods and for final paychecks (e.g., comparison with supporting documentation for hours worked, termination date, annual leave balance, and pay rate). Also, the Commission should evaluate the effectiveness of its current stated policy for verifying the accuracy of payroll information and, as applicable, develop procedures that will ensure the timely detection and correction of errors.

ACCOUNTING POLICIES AND PROCEDURES

Because the Commission has been in the process of updating its accounting policies and procedures manual for several years, much of the information in the manual is no longer current. The accounting manager explained that he has been unable to complete the project because of changes in accounting personnel and implementation of a new accounting system.

The accounting policies and procedures manual should be an important tool because it includes information pertaining to the organization structure, personnel duties and responsibilities, agency processes to control assets, record accounting transactions in the proper period and proper accounts, etc. A manual is especially useful for new employees as a guide to learning their jobs.

We recommend the Commission ensure that the accounting policies and procedures manual is updated to reflect current practices and is completed as soon as possible. If it is determined that completion of the entire manual will be delayed, we recommend that the manual be issued piecemeal as sections are completed. Finally, the Commission should implement procedures to periodically review and timely update the manual to keep it current.

RECONCILIATIONS

On the Commission's November 1996 and July 1997 [FM13 (fiscal year 1997 month 13)] reconciliations, several reconciling differences between the balances in the agency's accounting records and those in STARS, the State's accounting system, were either not explained or inadequately explained. It appears that the person responsible for independently reviewing and approving the reconciliations is performing a cursory review because the reviewer should have discovered the deficiencies in the reconciliations and required the preparer to provide complete explanations for all reconciling items. Our report on the Commission for fiscal year 1995 contained a similar finding regarding the agency's failure to explain differences detected in the reconciliation and the reviewer's failure to perform thorough reviews of reconciliations.

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires agencies to perform monthly reconciliations to facilitate prompt error detection and correction. Such reconciliations must be performed on a timely basis, documented in writing with supporting working papers, and independently reviewed and approved.

We recommend the Commission adhere to the STARS Manual reconciliation procedures to ensure that the preparer provides detailed explanations for all reconciling differences. In addition, the person reviewing and approving the monthly reconciliations should require the preparer to correct all deficiencies in the reconciliations and supporting documentation (e.g., inadequate explanations of reconciling items).

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 Auditor's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 1995, and dated July 16, 1996. [We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 1996.] We determined that the Commission has taken adequate corrective action on each of the deficiencies except for those described in Reconciliations and Termination Pay which we have repeated in Section A of this report.

MANAGEMENT'S RESPONSE