

SOUTH CAROLINA MUSEUM COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 1, 1998

The Honorable David M. Beasley, 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, 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 three percent of the aggregate amount of all recorded receipts. Our finding as a result of these procedures is presented in Receipts and Revenues 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 less than one percent of the aggregate amount of all recorded non-payroll disbursements. Our findings as a result of these procedures are presented in Procurement Code, and Procurements and Disbursements in the Accountant's Comments section of this report.

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Members of the Commission
South Carolina Museum Commission
June 1, 1998

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 less than one percent of the aggregate amount of all recorded payroll disbursements. Our finding as a result of these procedures is presented in Personal Services and Employer Contributions in the Accountant's Comments section of this report.
4. We tested all operating transfers, selected journal entries 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 and appropriation transfers selected for testing were chosen randomly. The totals of these selected journal entries and appropriation transfers were six percent and 48 percent, respectively, of the aggregate amounts of all such recorded transactions. Our finding as a result of these procedures is presented in Journal Entries and Transfers in the Accountant's Comments section of this report.
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 findings as a result of these procedures are presented in Data Security and BARS Accounting System 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. Our findings as a result of these procedures are presented in Reconciliations, Procurement Code, Procurements and Disbursements, and Receipts and Revenues 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 Commission resulting from our engagement for the fiscal year ended June 30, 1995, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are referenced in Section A in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Commission and were unable to agree 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. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
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. Our findings as a result of these procedures are presented in Closing Packages, Petty Cash and Fixed Assets Accounting in the Accountant's Comments section of this report.
11. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1997, prepared by the Commission and submitted to the State Auditor and reviewed 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.

The Honorable David M. Beasley, Governor
and
Members of the Commission
South Carolina Museum Commission
June 1, 1998

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 eleven 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 MUSEUM 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	\$1,792,407	\$1,721,119	\$ 71,288
Employer Contributions	436,862	410,378	26,484
Other Operating Expenses	2,999,861	2,990,937	8,924
Permanent Improvements	-	-	-
<i>Special Item:</i>			
Total Quality Management	<u>14,010</u>	<u>9,210</u>	<u>4,800</u>
Total Expenditures	<u>\$5,243,140</u>	<u>\$5,131,644</u>	<u>\$111,496</u>

The accompanying notes are an integral part of this schedule.

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

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 327,776	\$284,562	\$ 43,214
Employer Contributions	61,018	48,134	12,884
Other Operating Expenses	787,685	602,391	185,294
Permanent Improvements	65,000	34,763	30,237
<i>Special Item:</i>			
Total Quality Management	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$1,241,479</u>	<u>\$969,850</u>	<u>\$271,629</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA MUSEUM 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	\$2,120,183	\$2,005,681	\$114,502
Employer Contributions	497,880	458,512	39,368
Other Operating Expenses	3,787,546	3,593,328	194,218
Permanent Improvements	65,000	34,763	30,237
<i>Special Item:</i>			
Total Quality Management	<u>14,010</u>	<u>9,210</u>	<u>4,800</u>
Total Expenditures	<u>\$6,484,619</u>	<u>\$6,101,494</u>	<u>\$383,125</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA MUSEUM COMMISSION

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The 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 MUSEUM 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's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$5,165,312
State Budget and Control Board Allocations for:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 17C.19.)	40,823
Total Quality Management Program (Proviso 17A.2.)	<u>14,010</u>
Revised Appropriation - Legal Basis	5,220,145
Plus: 1996 Appropriation Brought Forward	<u>22,995</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$5,243,140</u>

Proviso 72.44. of the 1996-97 Appropriation Act authorizes each agency to carry forward unspent State General Fund appropriations from the prior year into the current fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions for the current fiscal year. Agencies, which have separate General Fund carry-forward authority must exclude the amount carried forward by such separate authority from their bases for purposes of calculating the 10 percent carryforwards. Pursuant to this proviso, the Commission brought forward \$22,995 from the prior fiscal year.

Proviso 72.44. of the 1997-1998 Appropriation Act authorizes each agency to carry forward unspent State General Fund appropriations from the current year into the next fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority must exclude the amount carried forward by such separate authority from their bases for purposes of calculating the 10 percent carry forwards. Pursuant to this proviso, the Commission carried forward \$106,696 to fiscal year 1998. The Commission also carried forward \$4,800 for Total Quality Management as authorized by Proviso 17A.2. of the 1997-98 Appropriation. Total carry-forward to fiscal year 1998 was \$111,496.

Part III of the 1997-98 Appropriation Act appropriated \$160,000 of 1996-97 State General Fund surplus revenues for Outreach Programs. Of these funds, \$140,000 is to be allocated to the South Carolina Cotton Museum and \$20,000 is to be allocated to the Cayce Museum. These funds will be received in fiscal year 1998.

ACCOUNTANT'S COMMENTS

SECTION A - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on 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, 1995, and dated April 30, 1996. We did not perform an agreed-upon procedures engagement at the Commission for the fiscal year ended June 30, 1996. We determined that the Commission has not taken adequate corrective action on the findings, and we have repeated those comments in Section B as follows:

Internal Control Structure

Data Security

Reconciliations

Procurement Code

BARS Accounting System

Personal Services and Employer Contributions

Procurements and Disbursements

Receipts and Revenues

Journal Entries and Transfers

Closing Packages

Petty Cash

Fixed Assets Accounting

SECTION B - 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 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 material weaknesses or violations of State Laws, Rules, or Regulations.

INTERNAL CONTROL STRUCTURE

Introduction

An internal control structure virtually does not exist at the Commission. We have noted numerous errors and a general lack of controls for many years. For internal controls to work, they must be (1) effective in design, (2) placed in use, and (3) operating effectively. In our opinion, the Commission's internal control structure is inadequate for all transaction cycles. The Commission's major transaction cycles are (a) cash receipts and revenues, (b) procurement, cash disbursements, and expenditures, (c) personnel and payroll-related expenditures, and (d) general ledger.

An entity's internal control structure is comprised of the following three elements.

1. **Control Environment:** The collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies or procedures. It reflects the overall attitude, awareness, and actions of the Commission's board, management, and others concerning the importance of control and its emphasis in the entity.
2. **Accounting System:** The methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.
3. **Control Procedures:** Those policies and procedures, in addition to the control environment and the accounting system, that management has established to provide reasonable assurance that specific entity objectives will be achieved.

In the following subsections, we will further define the three elements of the internal control structure and describe the Agency's major weaknesses and our recommendations.

Control Environment

The control environment includes the following factors: (1) management's philosophy and operating style; (2) the entity's organizational structure; (3) the functioning of the governing body and its committees, particularly the existence of a working audit committee; (4) methods of assigning authority and responsibility; (5) management's control methods for monitoring and following up on performance, including internal auditing; and (6) personnel policies and practices.

Control Environment (Continued)

The Commission is the governing body of the Agency and, as such, elects an executive officer, the director. The Commission appoints, on the recommendation of the director, all other members of the staff. The Commission has limited involvement in the operation of the Agency and does not have an audit committee. In previous years, management chose to absorb most budget cuts in administration rather than in program areas, and shifted authority to department heads, resulting in a very decentralized operating style.

The Agency has experienced enormous growth since the opening of the State Museum; however, the staff size and qualifications of those responsible for accounting and procurement have not been adequately upgraded. Also, the accounting department has experienced high staff turnover that has continued into fiscal year 1998.

For many years, the accounting supervisor has had much authority, many responsibilities, but little supervision. During fiscal year 1997, the supervisor exercised authority that had been specifically delegated plus additional authority he had assumed. As a result of these factors, the supervisor had not been evaluated on his total responsibilities, both assumed and assigned, and performance.

For several years, the Agency has had an inadequately qualified, trained, and supervised accounting department that has produced unreliable accounting information. There is a lack of (1) adequate policies and procedures, (2) routine assignments of duties and responsibilities, and (3) an understanding of the accounting and filing systems.

The Commission does not have an internal audit department. To compensate, management should become more active in monitoring and following up on performance of staff and should implement more independent checks on performance using its current staff.

Control Environment (Continued)

In order to improve its control environment, the Commission began to take steps after fiscal year 1997 to reorganize the agency, centralize the purchasing function, and provide adequate and qualified accounting staff. We encourage the Commission to continue these efforts and recommend that the nine-member Commission become more involved in oversight of the Agency's financial operations and evaluate whether this task could be better managed with a finance/audit committee. The full Commission or its committee should monitor and supervise the financial activities of the Agency. It should ensure that adequate controls are developed and implemented. Also, it should monitor progress in implementing the recommendations made in this report.

In addition to reviewing its overall operating style and organizational structure, the Commission should continue the following actions:

1. Evaluate the number, level, band, and qualifications of employees needed for the administration and accounting departments.
2. Establish a centralized procurement function.
3. Evaluate and formalize its methods of assigning authority and responsibility, and incorporate adequate separation of duties in the assignments.
4. Develop written policies and procedures to substantiate its delegation of authority and responsibility.
5. Develop performance measures and goals for each employee and routinely monitor the progress of the employees and the Agency.
6. Improve its monitoring and supervision of activities and staff and adequately train employees in their areas of responsibility.

Accounting System

An effective accounting system gives appropriate consideration to establishing methods and records that accomplish the following purposes:

- Identify and record all valid transactions.
- Describe on a timely basis the transactions in sufficient detail to permit proper classification of financial transactions for financial reporting.

Accounting System (Continued)

- Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.
- Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.
- Present properly the transactions and related disclosures in the financial statements.

In fiscal year 1991, the Commission began using the BARS automated governmental accounting system designed for smaller State agencies. However, the Commission never used BARS as it was designed to be used to report self-balancing governmental funds. In fiscal year 1995, the Commission could not determine why two reports produced by BARS presented different results. We could not determine if adequate corrective action was taken on these reports for fiscal year 1997 because the Commission was unable to provide us with one of the reports.

The Commission used Quattro spreadsheets to compute personal service and employer contribution expenditures. These expenditures were then recorded to BARS. We found that these spreadsheets contained many posting errors and significant formula errors. Therefore, personal services and employer contributions as reported on BARS are not correct.

We have reported material weaknesses in the accounting systems and records including those for fixed assets since fiscal year 1987. The Commission's fixed asset accounting system is still unreliable. The values of assets reported to the State Comptroller General on the closing packages differ substantially from the fixed assets balances on the two detail listings maintained by the Commission.

For fiscal year 1997, the final BARS reports do not agree to accounting records of the Agency as maintained in the State's accounting and reporting system (STARS). The Commission only attempted reconciliations for fiscal months 8 through 10 and did not adequately explain reconciling items for these months. The accounting department still could not locate many of its records in response to our requests.

Accounting System (Continued)

To improve its accounting and reporting, we recommend that the Commission establish one accounting system for all transactions and account balances. All accounts should be reported on BARS, and all transactions should be timely and accurately recorded in BARS. Any duplication of effort and of records (e.g., Quattro spreadsheets) should be eliminated. When spreadsheet programs are used, there should be adequate testing and other controls over formulas and macros prior to posting information in those records. Reconciliations should be performed monthly in accordance with the State Comptroller General's requirements.

We also recommend that input forms and supporting documentation describe the transactions in sufficient detail to permit proper classification and reporting. The Commission should develop and implement written filing and retention procedures for all accounting documents to ensure its ability to retrieve files, even in the event of employee turnover in key positions.

Control Procedures

For the third element of the internal control structure, an entity must focus on establishing control procedures pertaining to (1) proper authorization of transactions and activities; (2) segregation of duties which involve authorizing transactions, recording transactions, and maintaining custody of assets; (3) design and use of adequate documents and records to help ensure the proper recording of transactions and events; (4) adequate safeguards over access to and use of assets and records; and (5) independent checks on performance and proper valuation of recorded amounts.

Control Procedures (Continued)

Manuals are a means of documenting and communicating the entity's control objectives and procedures. The South Carolina Consolidated Procurement Code requires agencies to have a procurement procedures manual. In our comment, Procurement Code - Procurement Procedures Manual, we recommend that the Commission create a new (or update its existing) manual. In addition, the Commission should develop a complete administrative and accounting policies and procedures manual that establishes policies and procedures for all transaction cycles.

For each transaction cycle, the Commission should establish proper duties and responsibilities with an adequate separation of duties. The Commission should establish the level of authority required to prepare, approve, and record each transaction type. The Commission's policies and procedures should specify the requirements and level of authorization for processing all journal entries, especially adjusting entries. The manual should describe the standard documents, records, and transaction codes necessary for the proper recording and reporting of transactions and events with instructions for preparing and approving these documents and records. The Commission should provide adequate training for its employees to enable them to perform their assigned duties and responsibilities.

As discussed in other comments, the Commission should establish adequate safeguards over access to and use of assets and records. Furthermore, the Commission should address the following problem areas:

1. Fixed assets accounting and controls;
2. Level of petty cash and uses of and controls over the petty cash bank and drawer accounts; and
3. Data security, particularly in relation to computer programs and files and record retention and retrieval.

Control Procedures (Continued)

We also recommend that the Commission establish controls to provide independent checks on performance (such as reconciliations), improved clerical accuracy checks, analytical comparisons of expected and actual results, computer-programmed controls, both management and user reviews of reports, and policies on review and approval of transactions.

DATA SECURITY

The Commission's primary means of processing accounting information is through the BARS software. In our opinion, the Commission's data security was breached for fiscal years 1992 through 1995. Consequently, its records were unreliable. In fiscal year 1993, data changes were made, including the deletion of personal services and employer contributions accounts from BARS and the deletion/changing of budgetary accounts. Also in that year, the Commission networked its computers thereby allowing multiple-user access to BARS files. Some changes were made directly on the database which represents a serious weakness in internal control. The 1992 and 1993 database files accessible through the network were not the same files from which the reports were run. The Commission's BARS reports, which are supposed to be the Commission's books, were not supported by the BARS data files or by the input documents.

Although we did not determine the extent or how data security was breached in fiscal year 1994, we noted that the Museum had not developed and implemented controls over data security. In fiscal year 1995, we determined that two BARS reports did not present the same data for some fields even though the information should have been from the same database. In fiscal year 1997, we were unable to determine that the two BARS reports presented the same data because the Commission was unable to provide us with one of the reports. Although the data security breach involved mainly computerized BARS data, the Commission's real problem is the lack of controls. The breach could have just as easily occurred with automated spreadsheets or manual records. Policies and procedures must be established to provide assurance that adequate safeguards exist over access to and use of assets and records, e.g., authorization for access to computer programs and files. Account processing controls should address procedures from the initiation of a transaction to its inclusion in the financial records, including how the computer is used to process the data.

We recommend that the Commission establish the level of authority required to prepare, approve, and record each transaction type. Policies and procedures should be established regarding the requirements for processing all entries. The Commission should review its controls over access to the BARS software and BARS data files. When monthly files are accepted, they should be backed up and the balances used as beginning amounts for the next month. The network administrator should be responsible for access to the monthly files, thereby requiring the accounting department to record prior months' corrections as separate transactions.

RECONCILIATIONS

In our prior report, we noted that the Commission did not properly perform monthly reconciliations for fiscal years 1992 through 1995. For fiscal year 1997, we found that the Commission performed reconciliations for fiscal months 8, 9 and 10 only. We were unable to review the fiscal month 8 and 9 reconciliations because the Commission did not maintain sufficient documentation of the work performed. We reviewed the fiscal month 10 reconciliation and noted the following:

1. The reconciliation was not presented in an easily understandable format because the BARS report is by minor department code and the reconciliation spreadsheet prepared by the Commission was rolled up by major department code.
2. The reconciliation was not signed and dated by the preparer.
3. The reconciliation was not signed by the reviewer to document approval.
4. Revenues and cash balances were not reconciled.
5. Federal funds were not reconciled to the Comptroller General's (CG) 467 report.
6. We found several unexplained differences between the BARS report and the reconciliation spreadsheet.

Since the Commission did not perform a reconciliation for fiscal month 13, we were unable to agree the expenditures reported in schedules 1, 2, and 3 of this report to the Commission's books. Also, the Commission does not have written procedures regarding the performance of monthly reconciliations. Finally, because monthly reconciliations were not properly performed, we found that the following problems were not detected and corrected by the Commission:

1. In a test of reasonableness of sales tax paid, we noted that BARS reported sales tax expenditures of \$214,073 while the STARS report shows sales tax expenditures of \$163,484.
2. During analytical review, we found the Commission reported negative expenditures of \$61,152 in its scholarships account (object 2801) on STARS while reporting no expenditures in this account on BARS. Upon further investigation, we noted that the voucher numbers shown on the STARS reports were not from any of the number series used by BARS.

3. During our test of the Commission's payroll voucher, we found that gross payroll on the voucher agreed to STARS but not to BARS.

The Commission is not in compliance with any reconciliation and error detection and correction procedures required by Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures Manual (STARS Manual). Agencies must have clearly documented, written reconciliations of revenues, expenditures, and cash. They must be signed and dated by both the preparer and the reviewer upon approval.

We recommend that the Commission implement data input controls over the various data elements (e.g., over coding and amounts). In addition, the Commission should reconcile each cash, revenue, and expenditure account in the Agency's accounting records on a monthly basis to STARS reports in accordance with STARS Manual guidelines. These reconciliations should be prepared timely by a qualified employee and reviewed by another qualified employee. Corrections for individual errors discovered during the reconciliation process should be made timely and recorded as separate transactions.

PROCUREMENT CODE

Procurement Responsibilities and Competitive Procurements

Several disbursements in fiscal years 1992 through 1995 did not adequately document compliance with various aspects of the South Carolina Consolidated Procurement Code (Procurement Code) regarding competition and price reasonableness for small purchases as required by the then current Procurement Code. The new Procurement Code became effective July 1, 1993, and significantly increased the tier values for small purchase categories. The small purchase procedures now apply to all agencies for procurements under \$5,000 and to any agency with applicable procurement certification over \$5,000. Code Section 11-35-1550. (2) for the two small purchase categories applicable to the Commission requires, in part, the following:

- (1) **Purchases Not in Excess of \$1,500.** The purchasing officer shall annotate the purchase requisition: "Price is fair and reasonable" and sign.
- (2) **Purchases from \$1,501 to \$5000.** The agency shall solicit verbal or written quotes from a minimum of three qualified sources of supply and shall attach documentation of the quotes to the purchase requisition.

We tested 30 vouchers for fiscal year 1997 for procurement compliance. For 1 of the 28 vouchers tested that were for purchases not in excess of \$1,500, the Commission did not annotate that the purchases were fair and reasonable. Also, for one of the two vouchers for purchases between \$1,500 and \$5,000, the Commission did not document the required three verbal/written quotes. We believe these exceptions were due in large part to the decentralization of the Commission's procurement process. Each department head was responsible for the department's procurements; however, these department heads were not trained and kept up-to-date on the requirements of the Procurement Code. In an effort to address these problems, the Commission has initiated a centralized purchasing function and assigned purchasing duties to an appropriate employee during fiscal year 1998.

Procurement Responsibilities and Competitive Procurements (Continued)

We recommend that the Commission continue with its efforts to improve its procurement process by providing adequate supervision and training to the new procurement officer. We further recommend that the Commission comply with all aspects of the Procurement Code by establishing and implementing adequate procedures and controls.

Procurement Procedures Manual

As we have reported since fiscal year 1992, the Commission developed an internal procurement procedures manual as required by Procurement Code Regulation 19-445.2005; however, when the Commission eliminated the procurement officer position and implemented new accounting system software, the manual was not updated and eventually was abandoned. The Commission is currently in the process of developing an internal procurement procedures manual.

We recommend that the Commission continue in its development of a procurement procedures manual. Once the manual is complete, the Commission should assign responsibility to the appropriate qualified staff for maintaining and updating the manual.

Use of Procurement Code Exemption

The State Budget and Control Board at its July 17, 1991, meeting granted the Commission exemptions from the Procurement Code for the following items: "(a) Historical artifacts... (b) Scientific specimens... (c) Artworks... (d) Collection disciplines... (e) Exhibits, to include design and fabrication and specialty materials not commercially available that are used as components of exhibits." As we have noted since fiscal year 1992, the Commission has not developed written policies and procedures regarding the matter.

We again recommend the Commission develop written policies and procedures to ensure the proper use of its purchasing exemptions in its internal procurement manual.

BARS ACCOUNTING SYSTEM

Budgetary Accounts

For fiscal year 1997, the Commission provided us with its reconciliations of BARS balances to STARS for only fiscal months 8 through 10. We could not determine whether the Commission entered its original budget at the beginning of the year and the various transfers throughout the year and whether BARS reports were run throughout the year. In addition, we could not agree the budget amounts on BARS to STARS for the year.

Because the budget has not been accurately and timely reported, the information presented to department heads for budget monitoring has been unreliable. We recommend that the Commission post budget entries as they are approved and distribute updated budget reports throughout the year to department heads.

Transaction Type Codes

BARS uses specific, two digit codes to indicate which transaction type is being processed. The two-digit code is followed by a numerical sequence assigned by BARS to each transaction. For fiscal years 1992 through 1994, the Commission did not use transaction codes as designed for budget, journal entry, and transfer entries. We did note some improvements for fiscal year 1995. For fiscal year 1997, we found that the Commission added a non-BARS letter sequence to the hard copy of certain transactions to indicate that the transactions affected STARS but not BARS. However, since these transactions were not assigned a transaction code by BARS, they cannot be easily tracked.

We recommend the Commission use only the transaction codes developed for BARS and only as they were intended to be used. This procedure should make the accounting system and reports more accurate and complete and should help ensure an adequate trail of all transactions.

Numerical Sequence

Use of numerical sequences, especially for prenumbered documents, strengthens an entity's internal control structure. For fiscal years 1992 through 1995, the Commission recorded certain document numbers out of sequence. Also, for fiscal years 1992 through 1994 the Commission could not account for some numbers in the sequences.

For fiscal year 1997, we did not note the recording of transaction numbers out of sequence. However, we did note a break in numerical sequence that the Commission could not account for.

We recommend that all document numbers be used in sequence. When sequence breaks occur, they should be documented and approved. All copies of voided documents should be maintained and the reasons for voiding them should be documented. Periodically, the numerical sequences for each document type should be accounted for by an employee independent of document input.

BARS Account Status Reports

The BARS Account Status reports are run monthly and are equivalent to a monthly general ledger. For fiscal years 1992 through 1997, these reports were not produced and reconciled timely to the STARS reports. In some instances, the BARS database and the available reports did not represent the same data. As we reported for fiscal year 1995, BARS Account Status reports did not agree with the BARS-generated STARS Account Status reports for the year. We could not determine that these two reports agreed for fiscal year 1997 because the Commission was not able to produce one of the reports. See related information in the comments Data Security and Reconciliations.

BARS Account Status Reports (Continued)

The Commission must secure its data. It should determine why reports produced from the same database present different results, and it should correct any deficiencies. BARS Account Status reports should be produced monthly as designed and timely reconciled.

BARS Voucher Output

BARS produces a payment voucher after the Commission records information from a vendor's invoice. We noted two instances in which the Commission prepared duplicate vouchers, each a day apart, for a single invoice. In each instance, the original and duplicate vouchers were signed by two different employees. However, both vouchers had the same voucher and check numbers recorded on them. We determined that no duplicate payments were made.

We recommend that the Commission design and implement control procedures to prevent or detect such voucher duplications.

PERSONAL SERVICES AND EMPLOYER CONTRIBUTIONS

Supporting Documentation

For fiscal years 1992 through 1995, the Commission could not locate some time sheets and employer contribution documents we requested. For fiscal year 1997, it could not provide adequate documentation to support the assertion that all payroll withholdings and deductions had been approved for 8 of the 25 employees we tested. Furthermore, the Commission was not able to provide us with personnel files for 9 of 28 employees tested who were added to the payroll and 11 of 30 employees tested who were deleted from the payroll.

Supporting documentation must be maintained and filed to support all recorded transactions. The Commission should establish written file maintenance procedures which cover the initial filing of all documents and later temporary removal (e.g., the use of document sign-out forms) from the files to ensure that documents can be located by authorized users, as necessary, and retrieved regardless of employee turnover.

Payroll Additions and Terminations

To perform certain tests of the Commission's payroll system and records, we requested listings of employees hired and of employees terminating employment in fiscal year 1997. The Commission did not prepare these lists as requested which limited our ability to perform certain tests. However, we were able to obtain a sample of new hires and terminated employees by manually searching payroll records for periods in which employees were added or deleted.

Payroll Additions and Terminations (Continued)

During our testing of 28 new hires, we noted the following findings:

1. One employee began work on January 2 but was not paid until February 16. The employee should have been paid on February 1 according to the State's payroll schedule.
2. Two employees did not have time sheets to support time worked. Further, the Commission could not locate personnel files for 9 other employees. Therefore, we could not recompute and verify the amounts paid.
3. The Commission overpaid one employee \$17 as a result of a clerical error.

During our testing of 30 employees deleted from the payrolls in 1997 we noted certain exceptions.

1. The Commission could not locate personnel files for 11 employees. Therefore, we could not verify the termination dates or propriety of amounts paid.
2. The Commission overpaid three employees \$1,021, \$134, and \$43 respectively. The cause of the errors could not be determined.
3. The Commission paid one employee on May 16 for employment terminating on April 15. The employee should have been paid on May 1 according to the State's payroll schedule.

We recommend that the Commission prepare listings of additions and terminations as requested. The listings should be compiled throughout each year as additions and terminations occur. Also, we recommend the Commission implement controls and procedures to ensure that new hires and employees terminating employment are timely and accurately paid in accordance with the State's payroll schedule and at the properly approved rates documented in personnel files. The Commission must maintain adequate documentation of each employee's hire date, pay rate, time worked for each pay period, date of termination, unused leave balance, and pay calculations. The calculations for each component of final pay should be documented including regular work hours, holiday and overtime hours, and accrued annual leave.

Temporary Employees

We tested 25 temporary employees and found that 16 were on the payroll for 12 or more consecutive months without a break in service. The State Human Resource Regulations section 707.03 A. 2. states that an employee appointed on a full-time or part-time basis shall be given temporary status when the appointment is to a non-permanent position for a period not to exceed one year.

We recommend that the Commission monitor the service periods of employees with temporary status and remove these employees from the payroll when their service periods reach one year.

PROCUREMENTS AND DISBURSEMENTS

We tested vouchers for certain attributes among which were determining if (1) the expenditures were proper and (2) the controls over disbursements were adequate and in place. In our opinion, proper controls were not in place. For fiscal year 1997, we tested 30 voucher packages. Our findings regarding procurements and disbursements are detailed below. The recommendations for these findings are summarized at the end of this section.

Use of Object Codes

The Commission coded five disbursements in the 1997 vouchers tested to incorrect object codes. The Commission charged one voucher as out-of-state miles instead of in-state miles and meals as lodging and charged four other vouchers as hospitality tax instead of sales tax.

Supporting Documentation

Of the 30 voucher packages tested for fiscal year 1997, one was missing an invoice, one had amounts that did not agree with the invoice, one had an unsigned receiving report, one had an incomplete purchase order, and one had a purchase order in which the items and amounts did not agree with the invoice and in which the receiving report was not signed.

Separation of Duties

For three of the voucher packages tested, the same employee recorded the disbursement to BARS, prepared the voucher package, and signed the voucher. Furthermore, the employee was not listed on the Commission's signature card that documents which employees have authority to sign vouchers.

Timing of Voucher Payments

For fiscal year 1997, we noted two vouchers that were not paid within 30 days, as required by the State's Procurement Code. The original invoices had been either misplaced or held by other departments too long before forwarding to the accounting department. The decentralized procurement process caused delays in processing invoices for payment.

Travel Advances

We noted that several travel advances made in fiscal year 1997 were not repaid within 30 days after the end of the trip as required by Part IB, Proviso 72.32.K. of the 1997 Appropriation Act. The Commission does not monitor these travel advances to help ensure compliance with State rules.

Recommendations for Controls over Procurements and Disbursements

We recommend that the Commission's procurement manual include procedures from the initial requisition through the disbursement and recording of the expenditure. The manual should detail processing procedures for each document in the procurement (i.e., purchase requisition, purchase order, receiving report, invoice, and voucher). As completed in accordance with the Commission's written procedures, supporting documentation for each purchase should demonstrate that (1) the expenditure was a bona fide disbursement of the Commission, procured in conformity with the Procurement Code, and paid in conformance with State laws and regulations; (2) the voucher was properly authorized, checked for clerical accuracy, and canceled to prevent reuse; and (3) the expenditure was properly classified and recorded in the accounting records by fiscal year, subfund, and object code.

Recommendations for Controls over Procurements and Disbursements (Continued)

Vouchers should not be processed for payment without receiving reports to document satisfactory receipt of goods and services. The Commission should develop procedures for the ordering, receiving, and paying of goods and services near the end of the fiscal year. It should carefully review vouchers at this time to ensure they are paid from the correct year's appropriation and recorded in the proper fiscal year. Also, we recommend that the Commission pay all vouchers and monitor travel advances in accordance with State laws.

RECEIPTS AND REVENUES

Timing of Deposits

For one of 25 deposit packages tested, we found that departments did not forward checks in a timely manner to the accounting department for deposit. As in prior years, receipts for workshops and children's summer programs originally collected by departments are not forwarded to the accounting department until all related receipts have been collected. The Commission continues to use this policy to avoid refund payments if the programs are canceled. Receipts are not written until the accounting department receives the funds and supporting documentation.

Because cash is the asset which is most vulnerable to loss, adequate internal control procedures require that receipts be properly recorded, adequately identified in the accounting records, and timely deposited. Furthermore, Part I of each Appropriation Act requires that collections be deposited at least once each week when practical. We recommend that all receipts be forwarded directly to the accounting department and deposited timely. Refund payments should be made when the Commission later cancels a program.

Supporting Documentation and Receipt Classification

We noted that the Commission incorrectly recorded a rent refund of \$80,525 as a reduction to the household, laundry, and grounds maintenance account. We also noted one receipt voucher without supporting documentation; therefore, we could not determine the propriety of the revenue classification.

Again, we recommend that the Commission establish and follow written policies and procedures for receipt transactions. The Commission should implement controls to ensure that receipt documents are properly completed and supported, and receipts are properly classified and recorded.

Admissions Tax

In a test of the reasonableness of certain recorded amounts, we estimated the admissions tax that should have been paid on admissions revenue for fiscal year 1997. The actual amount paid exceeded our estimate by approximately \$5,140 or 66 percent. The Commission could not explain this variance. We recommend that admissions tax calculations be clearly documented and reviewed by someone other than the preparer before processing payment of the proper amount.

JOURNAL ENTRIES AND TRANSFERS

Transaction Coding and Posting

Four of the 25 journal entries tested for 1997, were not posted to the mini-codes or object codes indicated on the source documents. We recommend that the Commission record transactions in BARS exactly as reflected on source documents.

Supporting Documentation and Document Approval

Many of the journal entries we tested for fiscal years 1992 through 1995 did not have adequate supporting documentation that would enable us to determine the propriety of the entries. For fiscal year 1997, the Commission could not locate four of 25 journal entries selected for testing. Of the 21 entries available, five did not contain documentation and/or explanation to substantiate the entries.

Because four of the 25 entries selected for testing could not be found, we could not determine whether the Commission approved them. We also noted that 20 of the remaining 21 entries were not approved but were only signed by the preparer.

We noted that several of the journal entries were actually disbursement vouchers to which the Commission made corrections. All journal entries should be documented on separate forms with copies of the original vouchers attached as supporting documents.

We recommend that the Commission develop policies and procedures regarding the adequate and appropriate documentation for the various kinds of journal entries. All journal entries should be documented on separate forms and include sufficient information to determine the purpose of the entries, to support the account numbers and amounts recorded, and to document their approval and posting. If a journal entry is correcting a prior entry, the

Supporting Documentation and Document Approval (Continued)

prior entry should be cross-referenced or a copy attached to the correcting entry as supporting documentation. We recommend that the Commission develop and adhere to written retention policies for each type of document and its supporting documentation.

Appropriation Transfers

For fiscal year 1997, we tested a sample of 25 recorded appropriation transfers and noted the following findings:

1. No one other than the preparer signed and approved the transfers.
2. The preparer did not sign four of the transfers.
3. Eighteen transfers had no or inadequate supporting documentation referenced or attached.
4. The object codes on three transfers differed from those in the voucher register.
5. The amounts on two transfers did not balance.
6. We located three transfer documents in the files that were not posted on the BARS Voucher Register.

Each transfer should be entered in BARS at the time it is approved and recorded on STARS. The approval process should include procedures to ensure the accuracy of account codes and the mathematical accuracy of amounts (all transfers should balance.) The Museum should properly record transactions in BARS exactly as reflected on source documents. We recommend that the purpose of the transfer be explicitly stated and that each transfer be signed and dated by both the preparer and the approver. As stated previously, all documents should be filed in a manner to permit retrieval as needed.

CLOSING PACKAGES

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to use in preparing the State's financial statements. The GAAP Closing Procedures Manual provides guidance for the preparation of closing packages, assigns responsibility for their accuracy, and requires maintenance of supporting workpapers.

Cash and Investments

The Commission maintains separate petty cash bank and drawer accounts for both the store/admissions change fund and the miscellaneous expenses petty cash fund. The petty cash bank accounts are composite reservoir accounts approved by the State Treasurer.

The Commission has incorrectly reported amounts on the closing packages since 1992 for the two bank accounts. For 1997, the Commission incorrectly reported the authorized amounts for the drawer accounts on the closing package.

We recommend that the Commission properly report balances for its cash accounts, including petty cash, on closing packages.

Leases

Agencies report capital leases to the State Treasurer and operating leases to the Comptroller General by summarizing information on lease registers. Agencies complete the lease registers to determine whether their leases are capital or operating.

Leases (Continued)

For fiscal year 1997, the Commission reported on the Operating Lease Summary Form amounts for future minimum lease payments. According to the instructions on this form, the amounts are determined by information compiled on agency prepared lease registers. The Commission did not prepare these lease registers as required and could not substantiate the amounts reported on the closing package. We also noted that the closing package was not signed and dated by a reviewer as required.

We recommend that the Commission maintain complete lease files; prepare and update, as needed, lease registers for each lease; submit the appropriate capital lease information to the State Treasurer, as required; and submit the operating lease closing package to the Comptroller General prepared in accordance with the closing package instructions.

Fixed Assets

The Commission cannot accurately determine the value of its assets acquired prior to fiscal year 1991. The Commission maintains its own fixed asset listing using BARS software and also uses the service provided through the State's Division of General Services. For fiscal year 1997, the Commission reported an end-of-year balance of approximately \$810,000 on both lists but reported approximately \$1,187,000 on the closing package. The Commission was unable to support amounts on the fixed assets closing package for asset retirements, STARS 06XX and 07XX expenditures not meeting the Commission's capitalization criteria, and the fixed assets ending balance.

Fixed Assets (Continued)

After properly updating its fixed assets records, the Commission should make appropriate prior year corrections to the closing package. We recommend the Commission establish procedures to ensure that it completes future closing packages according to the Comptroller General's guidance and maintains adequate supporting documentation for all closing package amounts. The Commission should reconcile the items, and make appropriate corrections to the listing and/or closing package. (Our recommendations for addressing fixed asset accounting issues are in the Fixed Assets Accounting comment.)

Inventory

The inventory balance reported on the fiscal year 1997 inventory closing package is 20% less than the balance presented on the 1996 closing package. The Commission could not explain the variance. The reviewer checklist included with the inventory closing package requires the supporting working papers to explain the reasons for significant differences between amounts reported in the current year and the previous year.

We recommend that the Commission adequately document in its working papers retained for audit purposes, the reasons for any significant variances between current and prior year amounts.

PETTY CASH

The Commission charges admission to the Museum and operates a souvenir shop, the Cotton Mill Exchange. Also, it constructs some exhibits and often needs small amounts of supplies to complete the construction. For these reasons and other normal operating needs, the Commission received approval from the State Treasurer's Office and the State Auditor's Office for petty cash drawer and bank accounts. Since November 1988, the total approved amounts for the accounts have been as follows:

	<u>Approved Bank Amount</u>	<u>Authorized Drawer Amount</u>	<u>Total</u>
Store/admissions	\$ 800	\$3,200	\$4,000
Miscellaneous Expenses	<u>515</u>	<u>485</u>	<u>1,000</u>
Total	<u>\$1,315</u>	<u>\$3,685</u>	<u>\$5,000</u>

The Commission does not record any of these accounts on BARS.

Bank Accounts

The imprest book amounts for the bank accounts should have been \$800 for the store/admissions fund and \$515 for the miscellaneous expenses fund, which agreed with the balances on the June 30, 1991, bank statements. We determined that the book amounts and the bank balances do not agree for the two bank accounts because the Commission, since fiscal year 1992, has not reimbursed expenses nor corrected a reimbursement error between the two bank accounts. The accounts have had no activity since July 1992; however, these accounts remain open.

Bank Accounts (Continued)

We recommend that the Commission correct the items noted above and evaluate the need for these bank accounts. The accounts should be closed if they are not going to be used. If they are used, the Commission should design and implement the necessary policies and controls over their use, such as monthly bank reconciliations. The Commission should record all accounts, including petty cash bank and drawer accounts, on BARS.

Drawer Accounts

The Commission reported the authorized amount for miscellaneous expenses as \$545 on its 1997 closing package. We did not see any documentation for any changes in the authorized amount. We could not determine whether funds were missing or unreimbursed expenses were omitted from the reported amount.

The Commission does not periodically evaluate its petty cash needs regarding the drawer accounts. The Commission divides the store change cash between different custodians: (store, admissions, and accounting) for use in making money bags to open the registers each day. Based on our observations, some of these funds are never used. The Commission has not reduced the drawer accounts due to concern over adequate change for weekends and special evening events.

We recommend that the Commission evaluate this concern versus the risks and costs of maintaining excess cash on hand. The Commission should consider determining the normal amounts needed by the three custodians and having only one (store or admissions) custodian with extra cash for special events. (Because these two custodians are in the same area of the Museum, one custodian could borrow from the other, if necessary.) Furthermore, we recommend the Commission implement procedures over the cash drawers to include periodic surprise counts by an independent employee.

FIXED ASSETS ACCOUNTING

Assets Acquired Prior to Fiscal Year 1991

The Commission cannot determine the value of assets acquired prior to fiscal year 1991. In our opinion, the Commission did not have control over the fixed assets system when the State Museum was opened and has never gained this control.

Accounting for fixed assets is further complicated by the unique situation involving the State Museum. Exhibits and collections of museums are not required to be capitalized for GAAP purposes. However, the Commission believes that a portion of its pre-1991 fixed assets balance includes values for exhibits and collections. Also, to obtain the necessary funding to open the State Museum, the Commission approved the formation of a museum foundation to solicit and collect donations for purchasing collections and exhibits as well as furniture, fixtures, and equipment. The foundation rents space in the State Museum building and purchased some furniture and equipment in the building for its own use. It also purchased and donated some furniture and equipment to the State Museum. Furthermore, the Commission purchased furniture, fixtures, and equipment from its own funds, only some of which should be capitalized because the Museum's capitalization limit is \$500.

We recommend the Commission perform a thorough analysis of all fixed assets on the premises or under its control. We recommend the Commission determine which assets it owns and which assets the Foundation owns. For those assets owned by the Commission, it should determine the cost for those it purchased and the fair market value at donation of those received as contributions. For those individual assets with costs equal to or greater than its capitalization limit, the Commission should determine if they are properly included on the Commission's fixed assets listing. Capitalizable assets not on the listing should be added.

Assets Acquired Prior to Fiscal Year 1991 (Continued)

Exhibit and collection assets should not be included in the fixed assets listing total of furniture, fixtures, and equipment. Records for exhibits and collections should be maintained separately.

Accounting Records for Fixed Assets

The Commission maintained two detailed asset listings through 1994: one using BARS software and the other using the service available through the State Budget and Control Board – Division of General Services. We see no justification for this duplication of effort. At the end of fiscal year 1997, the fixed assets value on the lists was approximately \$810,000. However, the Commission reported a fixed assets value of approximately \$1,187,000 on the closing package. Also, we noted other matters since 1992 that would affect the accuracy of fixed assets reporting, such as equipment expenditures recorded as supplies, equipment purchases under the capitalization limit included on the closing package, and adjustments made to the closing package without supporting documentation.

The Commission did not have adequate controls over procurement and retirement decisions. It reported retirements of over \$250,000 in fiscal years 1992 and 1993; it subsequently determined that it needed some of the retired equipment. For fiscal year 1997, the Museum's records did not support the amounts reported on closing packages for retirements and for capital asset expenditures not capitalized as additions.

Accounting Records for Fixed Assets (Continued)

We recommend that the Commission maintain only one fixed assets accounting system. In updating its records of fixed assets (furniture, fixtures, and equipment) and of exhibits/collections, we recommend that the Commission obtain the assistance of the foundation regarding the values of items it purchased for and donated to the Museum. In addition, the Commission should develop policies and procedures to ensure (a) adequate accounting and custodial controls exist over fixed assets; (b) the fixed asset listing information supports the closing packages balances; (c) the classification by expenditure object code of capital asset purchases is proper; (d) the reconciliation and supporting documentation of equipment and other capital asset expenditures to additions support the fiscal year additions to the listing; and (e) documentation supports recorded retirements.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

In order to prepare the Statewide Single Audit report for fiscal year 1997, the State Auditor's Office required the Commission to submit a schedule of federal financial assistance for all of the Commission's federal funds. The Commission submitted the schedule five months after the due date. Upon review of the schedule, we noted numerous errors in the requested information and a general lack of understanding of federal programs. The Commission's accounting system (BARS), the State's accounting system (STARS), and the federal schedule reported different account balances for the Commission's federal funds. The Commission did not reconcile these differences.

We recommend that the Commission provide proper staff training and establish written procedures regarding the preparation of the schedule of federal financial assistance to ensure that amounts are accurate (e.g., reconciled to BARS and STARS) and that the State Auditor's Office instructions are followed.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA MUSEUM COMMISSION

August 31, 1998

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Vaughn:

Thank you for the preliminary draft copy of the report resulting from your performance of agreed-upon procedures for the fiscal year ended June 30, 1997. The report has been reviewed and I authorize the release of the report. A current list of our commission members, with their mailing addresses, is attached.

Enclosed are written procedures that address the Accountant's Comments in your report.

Please pass on my thanks to Mr. Wayne Sams – he was very helpful to us.

Sincerely,

Dr. Overton G. Ganong
Executive Director

Enclosure