

**SOUTH CAROLINA MUSEUM COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1998

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A – STATUS OF PRIOR FINDINGS	5
SECTION B – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
RECONCILIATIONS	7
BARS ACCOUNTING SYSTEM – BUDGETARY ACCOUNTS	9
PERSONAL SERVICES AND EMPLOYER CONTRIBUTIONS	
Supporting Documentation	10
Payroll Additions and Terminations	10
Overtime Compensation	11
DISBURSEMENTS	
Use of Object Codes	12
Missing Disbursement Vouchers	12
Supporting Documentation	12
Timing of Voucher Payments	12
Travel Advances	12
Recommendations for Controls over Disbursements	13
RECEIPTS AND REVENUES	
Timing of Deposits	14
Supporting Documentation and Receipt Classification	14
Understatement of Admissions Revenues	15
JOURNAL ENTRIES AND TRANSFERS	
Supporting Documentation and Document Approval	16
Appropriation Transfers	17
CLOSING PACKAGES	
Cash and Investments	18
Fixed assets	18
Inventory	19
PETTY CASH	
Bank Accounts	20
Drawer Accounts	21

CONTENTS

	<u>PAGE</u>
III. ACCOUNTANT'S COMMENTS – SECTION B (CONTINUED)	
FIXED ASSETS ACCOUNTING	
Assets Acquired Prior to Fiscal Year 1991	22
Accounting Records for Fixed Assets	23
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	24
MANAGEMENT'S RESPONSE	25

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 13, 1999

The Honorable James H. Hodges, 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, 1998, 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 and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of amounts collected and recorded by revenue account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Receipts and Revenues in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor
and
Members of the Commission
South Carolina Museum Commission
July 13, 1999

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 internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Disbursements in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Personal Services and Employer Contributions in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Journal Entries and Transfers in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor
and
Members of the Commission
South Carolina Museum Commission
July 13, 1999

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 internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in BARS Accounting System-Budgetary Accounts 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, 1998, and tested selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the 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 if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the 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 1998. Our finding as a result of these procedures is presented in Disbursements 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, 1997, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section A in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the Commission and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our 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.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, prepared by the Commission and submitted to the State Auditor. We 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 James H. Hodges, Governor
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Members of the Commission
South Carolina Museum Commission
July 13, 1999

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. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. 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 information and use of the Governor and of the Commission and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 1997, and dated June 1, 1998. We determined that the Commission has taken adequate corrective action on each of the findings except for those we have repeated in Section B. These comments are as follows:

Reconciliations

Bars Accounting System-Budgetary Accounts

Personal Services and Employer Contributions

Disbursements

Receipts and Revenues

Journal Entries and Transfers

Closing Packages

Petty Cash

Fixed Assets Accounting

Schedule of Federal Financial Assistance

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 internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECONCILIATIONS

In our prior report, we noted that the Commission did not properly perform monthly reconciliations for fiscal years 1992 through 1997. For fiscal year 1998, we found that the Commission performed reconciliations for all fiscal months except fiscal month 13. We reviewed the fiscal month 4 reconciliation and noted the following:

1. The reconciliation was not signed and dated by the preparer.
2. The reconciliation was not signed by the reviewer to document approval.
3. Revenues and cash balances were not reconciled.
4. Federal funds were not reconciled to the Comptroller General's (CG) 467 report.
5. We found several unexplained differences between the BARS report and the reconciliation spreadsheet.
6. We noted several instances where variances between BARS reports and STARS were unexplained.

The Commission does have written procedures regarding the performance of monthly reconciliations but they were not followed in fiscal year 1998. Finally, because monthly reconciliations were not properly performed, the following problems were not detected and corrected by the Commission:

1. In a test of reasonableness of admissions revenue, we noted that BARS reported admissions revenues of \$245,345 while the STARS report showed admissions revenues of \$228,924 and the Commission's Admissions spreadsheet showed admissions revenues of \$348,422.
2. In our test of the fixed assets closing package we noted that BARS reported fixed asset expenditures of \$137,719 while the STARS report shows fixed asset expenditures of \$139,959.
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 the 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.

BARS ACCOUNTING SYSTEM-BUDGETARY ACCOUNTS

For fiscal year 1998, 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.

PERSONAL SERVICES AND EMPLOYER CONTRIBUTIONS

Supporting Documentation

The Commission could not provide adequate documentation to support the assertion that all payroll withholdings and deductions had been approved for 11 of the 25 employees we tested.

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

During our testing of 25 new hires, we noted the following findings:

1. For 13 of the 25 employees tested, supporting documents in the personnel file did not match the hire date found on the Commission's new hire report.
2. The Commission miscalculated the initial pay for 1 of 25 employees tested.

During our testing of 25 employees deleted from the payrolls in 1998 we noted the following findings:

1. We were unable to agree the termination date to the supporting documentation for 1 of 25 employees selected for testing.
2. For 5 of 25 employees tested there was a lapse between the last day the employee worked and the termination date documented on the Commission's terminations report. This lapse ranged from 3 months to 8 months.
3. The Commission miscalculated the final pay for 2 of 25 employees tested. This resulted in overpayments of \$6 and \$165 respectively.
4. The Commission could not produce support for \$1,307 paid to an employee upon their termination. The \$1,307 consisted of 117.6 in accrued annual leave hours.

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.

Overtime Compensation

During our review of personnel files we noted one instance where an employee approved her own overtime compensation. This employee was also compensated for overtime hours in a week where she worked less than forty hours. Section 19–703.04 B.1. of the State Human Resource Regulations states, “Nonexempt employees (those not qualifying for exempt status) shall be paid or given compensatory time for hours worked in excess of 40 hours in a given work period of 7 consecutive days.” We recommend that the Commission ensure that employees do not approve their own overtime hours and follow State Human Resource Regulations pertaining to overtime compensation.

DISBURSEMENTS

For fiscal year 1998, we tested 25 voucher packages. Our findings regarding disbursements are detailed below. The recommendations for these findings are summarized at the end of this section.

Use of Object Codes

The Commission coded one disbursement in the 1998 vouchers tested to an incorrect object code. The Commission also erroneously recorded twelve vouchers as hospitality tax instead of sales tax.

Missing Disbursement Vouchers

The Commission was unable to locate 5 disbursement voucher packages selected for testing.

Supporting Documentation

Of the 25 voucher packages tested for fiscal year 1998, one was missing a page from an invoice and four contained unsigned receiving reports.

Timing of Voucher Payments

For fiscal year 1998, we noted three 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 1998 were not repaid within 30 days after the end of the trip as required by Part IB, Proviso 72.32.K. of the 1998 Appropriation Act. In addition, we noted one travel advance repayment that was recorded in the Comptroller General's reports but not BARS. The Commission does not monitor these travel advances to help ensure compliance with State rules.

Recommendations for Controls over Disbursements

We recommend that the Commission complete disbursement vouchers in accordance with the STARS manual and their own 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.

Vouchers should not be processed for payment without receiving reports to document satisfactory receipt of goods and services. 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 in the event the programs are canceled. Receipts are not written until the accounting department receives the funds and supporting documentation. We were also unable to determine if 7 cash receipts were deposited in a timely manner because the date funds were received was not documented.

Because cash is the asset 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. The Commission should also consider date-stamping all cash receipts.

Supporting Documentation and Receipt Classification

We noted two instances where the State Treasurer's receipt was not included with the receipt voucher package.

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.

Understatement of Admissions Revenues

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 1998. The actual amount paid exceeded our estimate by approximately \$5,906 or 54 percent. Upon further review we determined that the admissions tax variance was due to the understatement of Admission's revenue recorded in STARS. This occurred because the Museum incorrectly reduces admissions revenues when paying the Museum foundation for exhibits the foundation sponsors. We recommend that the Commission properly record payments to the Museum Foundation as expenditures.

JOURNAL ENTRIES AND TRANSFERS

Supporting Documentation and Document Approval

Many of the journal entries we tested for fiscal years 1992 through 1997 did not have adequate supporting documentation that would enable us to determine the propriety of the entries. For fiscal year 1998, the Commission could not locate two of 25 journal entries selected for testing. Of the 23 entries available, 19 did not contain documentation and/or explanation to substantiate the entries.

Because two of the 25 entries selected for testing could not be found, we could not determine whether the Commission approved them. We also noted that the remaining 23 entries were not approved by anyone other than the preparer.

We noted that a number 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 a correction of a prior entry, the 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 1998, 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. Six transfers had no or inadequate supporting documentation referenced or attached.
3. The account coding on two transfers differed from those recorded in BARS.
4. Debits did not equal credits for 11 transfers.
5. 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 1998, 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.

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 the Division of General Service's list and approximately \$827,000 on the BARS list. Approximately 1,187,000 was reported 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.

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 1998 inventory closing package is 24% more than the balance presented on the 1997 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.

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 being 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 1998 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. In addition, during our test of the Accounting Petty cash fund we noted a \$7 shortage that the Commission could not explain.

We recommend that the Commission evaluate 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. 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 1998: 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 1998, the fixed assets value on the BARS list was approximately \$826,660 and the fixed assets value on the General Services list was \$809,720. However, the Commission reported a fixed assets value of approximately \$1,194,212 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 1998, the Museum's records did not support the amounts reported on closing packages for retirements and for capital asset expenditures not capitalized as additions.

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 1998, the State Auditor's Office required the Commission to submit a schedule of federal financial assistance for all of the Commission's federal funds. Upon review of the schedule, we noted 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).

MANAGEMENT'S RESPONSE