

**SOUTH CAROLINA DEPARTMENT
OF NATURAL RESOURCES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 9, 2009

The Honorable Mark Sanford, Governor
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Natural Resources (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2008, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$7,800 – general fund, \$141,500 – earmarked fund, \$87,100 – restricted fund, and \$140,300 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$159,400 – general fund, \$108,300 – earmarked fund, \$87,500 – restricted fund, and \$127,100 – federal fund) and ±10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cut-Off of Expenditures and Object Codes in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for all new employees and those who terminated employment to determine if the employees were added/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable state law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$159,400 – general fund, \$108,300 – earmarked fund, \$87,500 – restricted fund, and \$127,100 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in the employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of the procedures are presented in Employee Profile and Pay Schedule in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries and operating transfers and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of the procedures is presented in Bond Approval in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of the procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008 prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
July 9, 2009

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the report by other accountants on the Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action.

Our finding as a result of the procedures is presented in Closing Packages in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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

CUT-OFF OF EXPENDITURES

During our Cut-Off Test of Expenditures, we noted that two of 25 vouchers tested were not paid in the proper year. One voucher reimbursed an employee for travel that occurred in June 2008. The other voucher was for payment of professional services that occurred in February 2008. Both vouchers were recorded in fiscal month 01 of fiscal year 2008-09. In addition, the latter voucher was not paid within 30 workdays of receipt of the goods and/or services.

Section 72.2 of the fiscal year 2007-08 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this part, if so much is necessary, are appropriated from the General Fund of the State, the Education Improvement Act Fund, the Highways and Public Transportation Funds, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2007-2008...". In addition, Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services.

We recommend the Department strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year and that invoices are paid within 30 workdays of the receipt of goods and/or services.

OBJECT CODES

During our Test of Disbursements, we noted two out of 25 vouchers tested were posted to the incorrect object code. The Department charged vouchers for consulting services and shipping for the Wildlife Magazine/Shop to object code 0901 (Purchase for Resale – Consumer Goods).

Section 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting Manual (STARS Manual) provides definitions of expenditure object codes to help agencies properly classify expenditures.

We recommend the Department carefully review invoices to ensure that expenditures are charged to the correct object codes as defined in the STARS Manual.

EMPLOYEE PROFILE

For two out of 25 payroll transactions tested during our test of payroll, we were unable to agree gross payroll reported on the Comptroller General's payroll warrant register to the Office of Human Resources (OHR) employee profile form. In addition, for one out of 25 payroll transactions tested, we noted the fund source documented on the payroll document did not agree with the fund source documented on the employee profile.

Section 19-701.05 of the South Carolina Human Resources Regulations states, "As required by 8-11-230 of the South Carolina Code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We recommend the Department evaluate its current system of for updating the employee profile and establish procedures to ensure timely posting of changes.

PAY SCHEDULE

Section 8-11-35 of the 1976 South Carolina Code of Laws, as amended, provides for a regular and permanent schedule for payment of employees and states, "...the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior

fiscal year. The payroll period continues thereafter on a twice-monthly schedule as established by the State Budget and Control Board. This schedule must continue from one fiscal year to another without interruption, on a twice-monthly basis. The State Budget and Control Board may approve changes to this schedule where circumstances are considered justifiable.”

The Department did not adhere to the State’s “regular and permanent schedule for payment of employees” for specified twice-monthly payroll work periods when paying some employees. We tested 25 employees in a termination test and noted two instances in which the employees were paid on the wrong State pay date because the employees did not submit their timesheets to the payroll department in a timely manner.

We recommend the Department strengthen its procedures to ensure employees are paid in accordance with the State’s established payroll period/paydate schedule. Employees should be adequately trained to ensure they promptly and accurately notify the appropriate department of all personnel transactions including forwarding timesheets.

BOND APPROVAL

The Department did not obtain approval from the Attorney General’s Office and the State Auditor’s Office for its blanket bond purchased July 2007.

Section 1-11-180 of the 1976 South Carolina Code of Laws states, in part, “In addition to the powers granted the Budget and Control Board under this chapter or any other provision of law, the Board may....(4) approve blanket bonds for a state agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. “(The Budget and Control Board has delegated this responsibility to the State Auditor.)

We recommend the Department obtain the required approvals of the Attorney General and the State Auditor for its blanket bond.

CLOSING PACKAGES

Capital Assets

During our testing of the capital assets closing package for fiscal year 2008, we noted the following:

1. The Department incorrectly capitalized a land acquisition by not including a professional service fee in the total acquisition cost. This error resulted in a \$2,800 understatement in land and non-depreciable improvements.
2. The Department reclassified \$1,242,024 from construction in progress to buildings. The Statewide Permanent Improvement Reporting System (SPIRS) report for this project documented that total expenditures were \$1,700,500. According to Department personnel, the difference of \$458,476 was for basic equipment and renovations that were not capitalized; however, the Department could only provide documentation to support \$427,016 of the difference.
3. The Department incorrectly calculated depreciation for one asset, resulting in an overstatement of \$557 in current year depreciation for buildings.
4. The Department incorrectly calculated depreciation for one asset, resulting in an overstatement of \$237 in current year depreciation for equipment.

We also learned during our analytical review of revenue that the Department sold a building in fiscal year 2008. We reviewed the capital assets closing package to ensure the retirement of this asset had been properly reported and determined that the Department did not report the retirement on the closing package. Based on our review of the Department's capital assets worksheet and discussions with Department personnel, we determined the building was not listed on the worksheet; however the land associated with the building was. The Department was unsure of why this oversight occurred.

Sections 3.8 through 3.11 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) provide guidance for agencies reporting capital asset transactions and balances in closing packages.

Litigation

During our testing of the litigation closing package, we noted the Department excluded payments of \$3,407 made to a private attorney. We also noted that payments to other private attorneys exceeded the amounts authorized by the Attorney General's Office. According to the South Carolina Attorney General's Office Request for Authorization to Employ Associate Counsel, the Department was authorized to pay one firm \$110 an hour and a second firm \$125 an hour for their services; however the Department paid the firms \$125 an hour and \$175 an hour, respectively. Furthermore, annual payments to a third firm exceeded the Attorney General's Office authorization by \$9.

Proviso 32.2 of the 2007-08 Appropriation Act states, "No department or agency of the State Government shall engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

Operating Lease – Lessor

During our testing of the operating lease – lessor closing package, we noted the capital assets worksheet provided to us as support for the closing package listed two different acquisition costs for the reported lease. The Department reported the original acquisition cost on the closing package. However, according to Department personnel, an adjustment was made to the asset's cost which was not reported on the closing package. As a result the asset and its carrying value were overstated \$192,106. We also were unable to reperform the current year depreciation calculation that was reported on the capital assets worksheet. Department personnel could not explain how they calculated the depreciation amount. Therefore we were unable to determine whether accumulated depreciation reported on the closing package was correct.

GAAP Manual Section 3.20 includes instructions regarding the proper preparation of this closing package. In addition, good internal controls require that the Department have a qualified preparer and reviewer independent of the preparer review closing packages prior to submission to the Comptroller General's Office to ensure accuracy of the information submitted.

Recommendations

We recommend the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with GAAP Manual instructions. We also recommend that corrections be incorporated into the subsequent capital assets closing package as necessary. Further, we recommend the Department implement procedures to ensure amounts paid to private attorneys do not exceed amounts authorized by the Attorney General to ensure they are in compliance with State law.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the Report on Agreed Upon Procedures of the Department resulting from the engagement performed by other accountants for the fiscal year ended June 30, 2007, and dated May 12, 2008. We determined that the deficiency titled Litigation Closing Package still exists; consequently we have reported a similar finding in Section A of the report.

MANAGEMENT'S RESPONSE

South Carolina Department of

Natural Resources



December 16, 2009

John E. Frampton
Director

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

In response to your letter dated November 13, 2009, please find enclosed our response to your report resulting from the agreed-upon procedures to the accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2008. In addition, please consider this letter to be my authorization to release the report.

As per your request, an electronic version of this response has been emailed to Ms. Jennifer Curran, CPA, for inclusion on your internet with the final report. In addition, you may find a complete list of our Board members and their mailing addresses on our website at the following link, www.dnr.sc.gov/admin/board.html. We are not authorized to release our Board members email addresses.

I would like to take this opportunity to commend your staff on their professionalism during this review. An exit conference was conducted on November 19, 2009, with Ms. Jennifer Curran, CPA, and she has been most helpful in resolving several issues since.

If you have questions or need additional assistance, please do not hesitate to contact our Internal Auditor, Ms. Angie Williams, at (803) 734-3948.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Frampton" with "JET" written to the right. Below the signature, the name "John E. Frampton" is printed.

John E. Frampton
SCDNR Director

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SCDNR's Response to Accountant's Comments

Cut-Off of Expenditures

Accountant's Comments:

During our Cut-Off Test of Expenditures, we noted that two of 25 vouchers tested were not paid in the proper year. One voucher reimbursed an employee for travel that occurred in June 2008. The other voucher was for payment of professional services that occurred in February 2008. Both vouchers were recorded in fiscal month 01 of fiscal year 2008-09. In addition, the latter voucher was not paid within 30 workdays of receipt of the goods and/or services.

Section 72.2 of the fiscal year 2007-08 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this part, if so much is necessary, are appropriated from the General Fund of the State, the Education Improvement Act Fund, the Highways and Public Transportation Funds, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2007-2008...". In addition, Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services.

We recommend the Department strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year and that invoices are paid within 30 workdays of the receipt of goods and/or services.

Agency's Response:

Accounts Payable repeatedly sends out notices during the last several weeks of the fiscal year reminding staff to submit all invoices and travel documents prior to the year-end closing date. Regardless, we are unable to process payments until they are received in Accounts Payable. We had no choice but to pay these two items in FY09 since they were not received in time to be processed in FY08.

In reference to the travel reimbursement, the employee did not complete the travel document until 07/14/08. It was received in Accounts Payable and processed for payment on 07/21/08. In reference to the payment for professional services, the original invoice was erroneously misfiled by the business manager. When the vendor called to inquire about his payment the error was detected and the invoice was submitted to Accounts Payable on 07/17/08. It was processed for payment on 07/21/08.

In the future, Accounts Payable will strengthen their due diligence to receive and process all expenditures prior to the year-end closing date.

Object Codes

Accountant's Comments:

During our Test of Disbursements, we noted two out of 25 vouchers tested were posted to the incorrect object code. The Department charged vouchers for consulting services and shipping for the Wildlife Magazine/Shop to object code 0901 (Purchase for Resale - Consumer Goods).

Section 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting Manual (STARS Manual) provides definitions of expenditure object codes to help agencies properly classify expenditures.

We recommend the Department carefully review invoices to ensure that expenditures are charged to the correct object codes as defined in the STARS Manual.

Agency's Response:

Historically we charged all items related to the Wildlife Magazine and Wildlife Shop to object code 0901 in an effort to capture all cost and expense them out through product sales. This practice was known and accepted by the Comptroller General's Office.

However, during the conversion to SAP in 2008, we were instructed to separate the Wildlife Magazine and Wildlife Shop into individual cost centers in order to track their expenses separately. As a result of this change, we are now able to charge expenditures to the object codes that define the items being procured.

Employee Profile

Accountant's Comments:

For two out of 25 payroll transactions tested during our test of payroll, we were unable to agree gross payroll reported on the Comptroller General's payroll warrant register to the Office of Human Resources (OHR) employee profile form. In addition, for one out of 25 payroll transactions tested, we noted the fund source documented on the payroll document did not agree with the fund source documented on the employee profile.

Section 19-701.05 of the South Carolina Human Resources Regulations states, "As required by 8-11-230 of the South Carolina Code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We recommend the Department evaluate its current system of for updating the employee profile and establish procedures to ensure timely posting of changes.

Agency's Response:

We concur with this finding. All errors have been corrected. In addition, the agency has transitioned to the new SAP system which will eliminate this problem.

Pay Schedule

Accountant's Comments:

Section 8-11-35 of the 1976 South Carolina Code of Laws, as amended, provides for a regular and permanent schedule for payment of employees and states, "...the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues thereafter on a twice-monthly schedule as established by the State Budget and Control Board. This schedule must continue from on fiscal year to another without interruption, on a twice-monthly basis. The State Budget and Control Board may approve changes to this schedule where circumstances are considered justifiable. "

The Department did not adhere to the State's "regular and permanent schedule for payment of employees" for specified twice-monthly payroll work periods when paying some employees. We tested 25 employees in a termination test and noted two instances in which the employees were paid on the wrong State pay date because the employees did not submit their timesheets to the payroll department in a timely manner.

We recommend the Department strengthen its procedures to ensure employees are paid in accordance with the State's established payroll period/paydate schedule. Employees

should be adequately trained to ensure they promptly and accurately notify the appropriate department of all personnel transactions including forwarding timesheets.

Agency's Response:

All salaried employees are paid on the twice-monthly basis in compliance with the schedule established by the State Budget and Control Board. However, hourly employees must be paid based on the information submitted on their timesheet.

Payroll sends numerous reminders requesting that all timesheets be submitted by the due dates. FLSA requires that we pay the employee for time worked. Therefore, if the timesheet is not received by the due date then it is paid as soon as possible thereafter, usually the following pay period.

In the future, Payroll will strengthen their due diligence to obtain timesheets from employees and/or supervisors in a timely manner.

Bond Approval

Accountant's Comments:

The Department did not obtain approval from the Attorney General's Office and the State Auditor's Office for its blanket bond purchased July 2007.

Section 1-11-180 of the 1976 South Carolina Code of Laws states, in part, "In addition to the powers granted the Budget and Control Board under this chapter or any other provision of law, the Board may....(4) approve blanket bonds for a state agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. "(The Budget and Control Board has delegated this responsibility to the State Auditor.)

We recommend the Department obtain the required approvals of the Attorney General and the State Auditor for its blanket bond.

Agency's Response:

Approvals have been obtained from both the State Auditor and the Attorney General. Copies of the approvals were provided to the Audit Manager at the Exit Conference.

Capital Assets

Accountant's Comments:

During our testing of the capital assets closing package for fiscal year 2008, we noted the following:

1. The Department incorrectly capitalized a land acquisition by not including a professional service fee in the total acquisition cost. This error resulted in a \$2,800 understatement in land and non-depreciable improvements.
2. The Department reclassified \$1,242,024 from construction in progress to buildings. The Statewide Permanent Improvement Reporting System (SPIRS) report for this project documented that total expenditures were \$1,700,500. According to Department personnel, the difference of \$458,476 was for basic equipment and renovations that were not capitalized; however, the Department could only provide documentation to support \$427,016 of the difference.
3. The Department incorrectly calculated depreciation for one asset, resulting in an overstatement of \$557 in current year depreciation for buildings.
4. The Department incorrectly calculated depreciation for one asset, resulting in an overstatement of \$237 in current year depreciation for equipment.

We also learned during our analytical review of revenue that the Department sold a building in fiscal year 2008. We reviewed the capital assets closing package to ensure the retirement of this asset had been properly reported and determined that the Department did not report the retirement on the closing package. Based on our review of the Department's capital assets worksheet and discussions with Department personnel, we determined the building was not listed on the worksheet; however the land associated with the building was. The Department was unsure of why this oversight occurred.

Sections 3.8 through 3.11 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) provide guidance for agencies reporting capital asset transactions and balances in closing packages.

We recommend the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with GAAP Manual instructions. We also recommend that corrections be incorporated into the subsequent capital assets closing package as necessary.

Agency's Response:

1. The \$2800 was for an appraisal on 63 acres in Pickens County known as Bootleg Mountain. This appraisal also included valuing the timber. The agency was considering this piece of property for a potential project. We initially expensed the cost for the appraisal because, at that time, we were not certain the project would actually be approved. Due to oversight, this expense was not capitalized once the project started to move forward. This has been corrected and the expense was capitalized on 06/17/09.
2. Costs associated with this project that were expensed were repair and equipment items that did not extend the useful life of the asset. The \$31,460 difference that we were not able to provide support for was from FY05. Those items had already been sent to archives and we did not have time to retrieve them during the review.
3. Depreciation was calculated automatically by our previous accounting system. In November 2008, the agency transitioned to the new SAP system and depreciation on this asset was corrected at that time. The new system adjusted for the overstatement and is calculating depreciation based on the remaining useful life and book value.
4. Depreciation was calculated automatically by our previous accounting system. In November 2008, the agency transitioned to the new SAP system and depreciation on this asset was corrected at that time. The new system adjusted for the overstatement and is calculating depreciation based on the remaining useful life and book value.

The building that was sold in 2008 had been fully depreciated. Therefore, it had no value to report on the closing package. The retirement was reported on the closing package at the book value of \$1,386 for the land.

Litigation

Accountant's Comments:

During our testing of the litigation closing package, we noted the Department excluded payments of \$3,407 made to a private attorney. We also noted that payments to other private attorneys exceeded the amounts authorized by the Attorney General's Office. According to the South Carolina Attorney General's Office Request for Authorization to Employ Associate Counsel, the Department was authorized to pay one firm \$110 an hour and a second firm \$125

an hour for their services; however the Department paid the firms \$125 an hour and \$175 an hour, respectively. Furthermore, annual payments to a third firm exceeded the Attorney General's Office authorization by \$9.

Proviso 32.2 of the 2007-08 Appropriation Act states, "No department or agency of the State Government shall engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

Further, we recommend the Department implement procedures to ensure amounts paid to private attorneys do not exceed amounts authorized by the Attorney General to ensure they are in compliance with State law.

Agency's Response:

We concur with this finding. These were human calculation errors. In the future, the Legal staff will strengthen their efforts by having an additional person review and proof these numbers.

Operating Lease

Accountant's Comments:

During our testing of the operating lease - lessor closing package, we noted the capital assets worksheet provided to us as support for the closing package listed two different acquisition costs for the reported lease. The Department reported the original acquisition cost on the closing package. However, according to Department personnel, an adjustment was made to the asset's cost which was not reported on the closing package. As a result the asset and its carrying value were overstated \$192,106. We also were unable to re-perform the current year depreciation calculation that was reported on the capital assets worksheet. Department personnel could not explain how they calculated the depreciation amount. Therefore we were unable to determine whether accumulated depreciation reported on the closing package was correct.

GAAP Manual Section 3.20 includes instructions regarding the proper preparation of this closing package. In addition, good internal controls require that the Department have a qualified preparer and reviewer independent of the preparer review closing packages prior to submission to the Comptroller General's Office to ensure accuracy of the information submitted.

Agency's Response:

The agency reported the amounts shown on the automated system's report entitled Capital Asset Worksheet - Buildings and Building Improvements (Depreciable) on the closing package. Using the straight line method of depreciation, which the audit staff used in items 3 & 4 above under Capital Assets, the carrying value of the building would be calculated as \$778,986.69. {The original acquisition cost in 1977 was \$3,894,932.29/40 years = \$97,373.30/year depreciation. \$97,373.30 x 32 years = \$3,115,945.60 of accumulated depreciation. \$3,894,932.29 - \$3,115,945.60 = \$778,986.69 remaining book value.} DNR reported a book value of \$819,431, an overstatement of only \$40,444. We are not certain how the audit staff arrived at the overstated value of \$192,106 as per their report.

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