

**SOUTH CAROLINA DEPARTMENT
OF
NATURAL RESOURCES
COLUMBIA, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 2010**

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 10, 2011

The Honorable Nikki R. Haley, Governor
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2010, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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

RHGjr/cwc

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 10, 2011

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Department of Natural Resources (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2010, in the areas addressed. The Agency'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 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 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 (\$253,000 – earmarked fund, \$365,000 – restricted fund, and \$416,000 – federal fund) and ± 10 percent.

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- We made inquiries of management pertaining to the Agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 Agency, 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 current year expenditures at the subfund and 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 (\$275,000 – general fund, \$355,000 – earmarked fund, \$413,000 – restricted fund, and \$378,000 – federal fund) and ± 10 percent.

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

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 the Statewide Accounting and Reporting System (STARS). Effective January 1, 2010, the Agency implemented the Human Resource and Payroll Modules of the South Carolina Enterprise Information System (SCEIS). Upon implementation of these modules, STARS reports were no longer used by the Agency.

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- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and 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 (\$275,000 – general fund, \$355,000 – earmarked fund, \$413,000 – restricted fund, and \$378,000 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in 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. We found no exceptions as a result of these procedures.

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

- We inspected 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, 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 these procedures.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
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June 10, 2011

5. **Appropriation Act**

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

We found no exceptions as a result of these procedures.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, prepared by the Agency 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 work papers and accounting records.

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

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, prepared by the Agency 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 work papers and accounting records.

Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

8. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the State Auditor's engagement for the fiscal year ended June 30, 2008. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2009.

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

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
June 10, 2011

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, Office of the State Auditor, governing body and management of the South Carolina Department of Natural Resources and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
June 10, 2011

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

CLOSING PACKAGES

Section 1.7 of the Comptroller General's Closing Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely".

Our procedures related to the Agency's closing packages disclosed the following exceptions:

- One of the eleven questions reflected on the Inventory Closing Package Reviewer Checklist (GAAP Form 3.6.2) was not answered by the reviewer.
- On the Capital Assets Overview Form (GAAP Form 3.8.1), the Agency indicated that it did not have balances for "net intra-State transfers" when it reported "net intra-State transfers" of \$37,456 for vehicles on the Capital Assets Summary Form (GAAP Form 3.9.1).
- On the Capital Assets Overview Form (GAAP Form 3.8.1), the Agency indicated that it did not charge any expenditures to STARS 06XX or 07XX object codes when it reported "additions" of \$6,585,764 on the Capital Assets Summary Form (GAAP Form 3.9.1) and the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1).
- The Agency reported outstanding construction commitments of \$74,375 on the Capital Assets Overview Form (GAAP Form 3.8.1), when only amounts equal to or greater than \$100,000 are to be reported.
- The Accounts Payable Summary Form – Governmental Funds (GAAP Form 3.12.1) was submitted to the Comptroller General's Office eighteen days after its due date.

We recommend that the Agency develop and implement procedures to ensure that all closing packages are completed in accordance with the Comptroller General's Closing Procedures Manual instructions. Also, we recommend that the Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We inspected the schedule of federal financial assistance (SFFA) for the year ended June 30, 2010 and our procedures disclosed the following exceptions:

- Management did not document explanations on the SFFA for the ten federal programs that had negative expenditures.
- Management did not document an explanation on the SFFA for one federal program that included a balance for “other deductions.”
- Two federal programs listed on the List of Subrecipients had grant numbers that did not agree with the grant numbers reflected on the SFFA.
- The pass-through entity’s name reflected on the Report Distribution List for Entities From Which You Received Federal Financial Assistance related to one federal program was not listed on the SFFA as the pass-through entity.

We recommend that the Agency follow all the requirements reflected in the letter of instructions provided by the State Auditor. We also recommend that the Agency maintain documentation to demonstrate that the SFFA reconciles to the accounting records. Finally, the Agency should prepare a checklist to ensure all of these requirements are addressed and to ensure proper reporting of federal expenditures.

SECTION C - 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 Agency for the fiscal year ended June 30, 2008, and dated July 9, 2009. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2009. We have repeated the finding related to the preparation of closing packages.

MANAGEMENT'S RESPONSE

South Carolina Department of

Natural Resources



John E. Frampton
Director

June 14, 2011

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

Dear Mr. Gilbert:

This letter is in response to the Independent Accountants' Report on Applying Agreed-Upon Procedures to the accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2010.

We have reviewed the report in detail and concur with the findings noted. SCDNR has taken the necessary steps to correct any deficiencies noted and will ensure that the appropriate staff are made aware of any procedural changes.

We appreciate the manner in which the audit was conducted and commend the staff of Elliott Davis on their professionalism during this review.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Frampton" followed by the initials "JEF".

John E. Frampton
SC DNR Director

SC DNR's Response to Accountant's Comments

CLOSING PACKAGES

FINDING: One of the eleven questions reflected on the inventory Closing Package Reviewer Checklist (GAAP Form 3.6.2) was not answered by the reviewer.

AGENCY RESPONSE: This question was omitted in error therefore, we concur with this finding.

FINDING: On the Capital Assets Overview Form (GAAP Form 3.8.1) the Agency indicated that it did not have balances for "net intra-State transfers" when it reported "net intra-State transfers" of \$37,456 for vehicles on the Capital Assets Summary Form (GAAP Form 3.9.1).

AGENCY RESPONSE: We concur with this finding. However, it needs to be noted that the overview form was due and submitted on September 15, 2010, in compliance with the instructions received from the Comptroller General's Office. The reports generated to prepare the overview did not indicate any transfers. The correct instructions for completing the Capital Asset Closing Package were not received from SCEIS until September 17, 2010. When we ran the reports using the new instructions we found that we did indeed have transfers and they were reported correctly on GAAP Form 3.9.1.

FINDING: On the Capital Assets Overview Form (GAAP Form 3.8.1), the Agency indicated that it did not charge any expenditures to STARS 06XX or 07XX object codes when it reported "additions" of \$6,585,764 on the Capital Assets Summary Form (GAAP Form 3.9.1) and the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1).

AGENCY RESPONSE: We concur with this finding. However it needs to be noted that Form 3.8.1 Question 4 asks if the agency charged any expenditures to STARS 06XX or 07XX object codes in ways that did NOT require STARS expenditures. This questionnaire was completed and submitted on September 15, 2010, in compliance with the instructions received from the Comptroller General's Office. The reports generated to prepare the overview did not indicate any such expenditure. The correct instructions for preparation of the Capital Assets Closing Package were received from SCEIS on September 17, 2010. After running the reports recommended in the corrected instructions we found that DNR did have items that meet this criteria and this information was reported correctly on GAAP Forms 3.9.1 and 3.10.1.

FINDING: The Agency reported outstanding construction commitments of \$74,375 on the Capital Assets Overview Form (GAAP Form 3.8.1) when only amounts equal to or greater than \$100,000 are to be reported.

AGENCY RESPONSE: We concur with this finding.

FINDING: The Accounts Payable Summary Form – Government Funds (GAAP Form 3.12.1) was submitted to the Comptroller General's Office eighteen days after its due date.

AGENCY RESPONSE: This closing package was originally due on September 10, 2010. It was submitted on September 9, 2010. We received new instructions to complete the Accounts Payable Closing Package on September 14, 2010. As a result of the new instructions it became necessary for us to submit a revision on one page of the closing package. The revised page was due on September 16,

2010. It was completed on October 4, 2010, therefore, we concur with this page being eighteen days late.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FINDING: Management did not document explanations on the SFFA for the ten federal programs that had negative expenditures.

AGENCY RESPONSE: We concur with this finding. However, negative expenditures were explained to the Deputy State Auditor, Richard Gilbert, via an email dated March 2, 2011.

FINDING: Management did not document an explanation on the SFFA for one federal program that included a balance for "other deductions."

AGENCY RESPONSE: For grant M-1-T, CFDA number 15.628, we did not list "FBC" for Fund Balance Change in the "Other Explanations" column of the FY 2010 SFFA. Therefore, we concur with this finding.

FINDING: Two federal programs listed on the List of Sub-recipients had grant numbers that did not agree with the grant numbers reflected on the SFFA.

AGENCY RESPONSE: We concur with this finding.

FINDING: The pass-through entity's name reflected on the Report Distribution List for Entities From Which You Received Federal Financial Assistance related to one federal program was not listed on the SFFA as the pass-through entity.

AGENCY RESPONSE: For grant 10-1779, CFDA number 81.132, the fund source was listed as a "B", but the pass through source of "University of South Carolina" was not identified on the FY 2010 SFFA. The University of South Carolina was listed on the Report Distribution List for Entities From Which Our Agency Received

Federal Financial Assistance. This issue has been corrected on the FY 2011 SFFA.
We concur with this finding.