

**SOUTH CAROLINA DEPARTMENT OF
NATURAL RESOURCES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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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May 16, 2014

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, 2013, 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

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-5
II. ACCOUNTANT'S COMMENTS	6
SECTION A - OTHER WEAKNESS	7
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	8
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 16, 2014

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
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, 2013, 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 fiscal year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior fiscal 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 (\$200,000 – earmarked fund, \$350,000 – restricted fund, and \$450,000 – federal fund) and ± 10 percent.
- 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 fiscal year expenditures at the subfund and account level to those of the prior fiscal 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 (\$225,000 – general fund, \$350,000 – earmarked fund, \$300,000 – restricted fund, and \$450,000 – 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 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 fiscal year payroll expenditures at the subfund and account level to those of the prior fiscal 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 (\$225,000 – general fund, \$350,000 – earmarked fund, \$300,000 – restricted fund, and \$450,000 – 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.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency 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 individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the fiscal year ended June 30, 2013, and inspected selected reconciliations of balances in the Agency's accounting records to those reflected on the State Treasurer's Office monthly 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 Agency's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records.

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.

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.

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

7. **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.

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

We found no exceptions as a result of these procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the fiscal year ended June 30, 2013, 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 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.

10. **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 our engagement for the fiscal year ended June 30, 2012, to determine if the Agency had taken corrective action.

We found no exceptions as a result of these procedures.

Mr. Richard H. Gilbert, Jr., CPA
South Carolina Office of the State Auditor
May 16, 2014

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

Columbia, South Carolina
May 16, 2014

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

ACCOUNTANT'S COMMENTS

SECTION A - OTHER WEAKNESS

Management of the 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 while performing the agreed-upon procedures, but it is not considered a violation of State Laws, Rules or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Section 117.110 of the Appropriation Act states “to ensure timely completion of the Statewide Single Audit, state agencies which do not receive a separate audit of federal expenditures, must submit to the Office of the State Auditor a schedule of federal program expenditures in a format prescribed by the Office of the State Auditor, no later than August 15 of each year”.

We noted that two of the grants listed on the Agency’s schedule of federal financial assistance did not agree to the grant description listed on the report distribution list which was provided by the federal grantor. This occurred because management of the Agency did not perform a review to ensure that the descriptions reflected on the report distribution list agreed to those reflected on the schedule of federal financial assistance. It is important for the schedule of federal financial assistance to reflect the proper grant descriptions provided by the federal grantor so that the federal grantor can properly monitor each grant’s level of activity for any given fiscal year.

We recommend that the Agency follow all the requirements reflected in the letter of instructions provided by the Office of the State Auditor when preparing its schedule of federal financial assistance, including reviewing and cross-referencing the schedule of federal financial assistance with the report distribution list.

SECTION B - STATUS OF PRIOR FINDINGS

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, 2012, and dated June 28, 2013. In response to our inquiries, we were told that the Agency has developed and implemented procedures to correct the weakness reported in the prior fiscal year. However, because the procedures were implemented after June 30, 2013, we did not perform tests of the new procedures.

MANAGEMENT'S COMMENTS

South Carolina Department of
Natural Resources



DNR

Alvin A. Taylor
Director

May 16, 2014

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the 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 (SCDNR) for the fiscal year ended June 30, 2013.

We have reviewed the report in detail and concur with the weakness noted. SCDNR accepts the recommendation included in the report and has implemented the necessary procedures to ensure that the information contained on the Schedule of Federal Financial Assistance and corresponding Attachments is correct and applicable for the reporting period.

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

Sincerely

Alvin A. Taylor
Director, Department of Natural Resources