SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

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State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 23, 2016

The Honorable Nikki R. Haley, 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, 2015, 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 twenty-five 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 twenty-five 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 account 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 ($11,500 – general fund, $114,300 – earmarked fund, $193,400 – restricted fund, and $163,900 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over licenses 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 the procedures.

2. **Non-Payroll Disbursements and Expenditures**
   - We inspected twenty-five 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 twenty-five 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 account 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 ($151,600 – general fund, $114,600 – earmarked fund, $160,400 – restricted fund, and $177,400 – federal fund) and $\pm$ 10 percent.
   - We inspected ten selected recorded procurement card transactions to determine if these transactions were purchased by an authorized cardholder user and are reasonable based upon the cardholder's position; monthly purchase summaries were submitted along with receipts and signed by supervisor and employee; and the single transaction limit was not exceeded with no indication of transaction splitting.

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

3. **Payroll Disbursements and Expenditures**
   - We inspected thirty 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; and payroll transactions 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 twenty-four selected new employees and twenty-two individuals 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 inspected eleven selected bonus pay disbursements to determine that the selected bonus did not exceed $3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than $100,000.

- We compared current year payroll expenditures at the subfund and account 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 ($151,600 – general fund, $114,600 – earmarked fund, $160,400 – restricted fund, and $177,400 – 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 ± 10 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 the procedures.

4. **Journal Entries, Operating Transfers Between Funds and Interagency Appropriation Transfers**

- We inspected twenty-five selected recorded journal entries, five operating transfers between funds, and two 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 journal entries and operating transfer transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- For each account, we obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2015, and inspected two selected reconciliations of balances in the Department'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 Department'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 Department's accounting records.

Cash Receipts and Revenues

- For each account, we inspected two months of 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.
- For each account, we inspected two months of 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 two months of 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.
- For each account, we inspected two months of selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

We selected the last month of the fiscal year and one haphazardly selected month. We found no exceptions as a result of the procedures.

6. **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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

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

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, 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.

9. **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 Department resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Department had taken corrective action.

   We found no exceptions as a result of the procedures.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than $100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than $100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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.

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

<u>ACCOUNTANT'S COMMENTS</u>

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.

REPORTING PACKAGES

Condition:

We noted the following during our testing of the Department's 2015 reporting packages:

1. The Department reported $57,873 as the Total Prepaid and Current amount and $106,414 as the Expensed amount for Fund 38000002 on the Prepaid Expenses Summary Form (Form 3.07.1). We determined the amounts should have been reported as $73,085 and $91,202, respectively.

2. The Department reported $5,398 of monthly copier rentals as Contingent Rentals instead of Other Adjustments on the Operating Leases Summary Form (Form 3.09.1). Additionally, the Department reported fiscal year 2016 future rental payments of $268,369 for one lease coded to Fund 30350067. We determined $268,651 should have been reported.

Cause:

1. For one transaction the Department transposed the numbers calculated for the prepaid and expense columns.

2. The Department classified monthly payments for one copier rental as contingent rentals due to oversight. Also, the Department did not take into account a lease amendment that took effect in September 2015 during its preparation of the reporting package.

Effect:

1. Total Prepaid and Current amount was understated by $15,212 and the Expensed amount was overstated by $15,212 for Fund 38000002 on Form 3.07.1.

2. Contingent Rentals were overstated by $5,398 and Other Adjustments were understated by $5,398 on Form 3.09.1. Future rental payments for fiscal year 2016 were understated by $282 for Fund 30350067 on Form 3.09.2.

Criteria:

Section 1.7 of the Controller General's Year-End Reporting Package Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely".

Recommendation:

We recommend the Department strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General's Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

Management's Response:

We concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future.

ASSET CAPITALIZATION

Condition:

During our test of asset acquisitions, we noted the Department did not capitalize two assets at the correct amount. The Department capitalized one asset at $30,834 and the other asset at $31,257. Per review of the associated invoices, both of these assets should have been capitalized at $30,528.

Cause:

Department personnel stated this exception occurred due to a keying error when allocating sales tax among several vehicles that were capitalized on the same document.

Effect:

Capital assets were overstated by $1,035 and depreciation expense was overstated by $34 in fiscal year 2015.

Criteria:

Section __.8 of the Comptroller General's Reporting Policies and Procedures Manual provides guidance to agencies regarding the recording of capital assets.

Recommendation:

We recommend the Department strengthen its procedures to ensure all assets are capitalized at the correct amount in accordance with Comptroller General's Office policies and procedures. The Department should also make appropriate adjustments for the assets in question.

Management's Response:

We concur with the finding and will implement the necessary corrective actions to prevent reoccurrence in the future.

SECTION B - 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 Department for the fiscal year ended June 30, 2014, and dated July 13, 2015. We determined the Department has taken adequate corrective action on the findings.

2 copies of this document were published at an estimated printing cost of $1.37 each, and a total printing cost of $2.74. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.