

**SOUTH CAROLINA DEPARTMENT OF  
PARKS, RECREATION, AND TOURISM**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2002**

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# State of South Carolina



## Office of the State Auditor

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STATE AUDITOR

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 6, 2003

The Honorable Mark Sanford, Governor  
and  
Mr. Chad Prosser, Executive Director  
South Carolina Department of Parks,  
Recreation, and Tourism  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of South Carolina Department of Parks, Recreation, and Tourism, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor  
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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the 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; and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Closing Packages in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Termination Pay in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

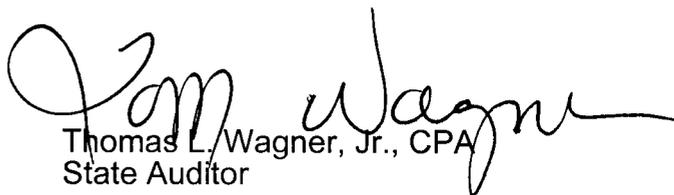
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5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2002, and tested 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 they were accurate and complete. 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. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2002. Our findings as a result of these procedures are presented in Reconciliations, Termination Pay, and Closing Packages in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Terminations and Closing Packages in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor  
and  
Mr. Chad Prosser, Executive Director  
South Carolina Department of Parks,  
Recreation, and Tourism  
June 6, 2003

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 areas, 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 management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

**SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the Agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

## RECONCILIATIONS

We reviewed the Department's reconciliations between its books and those of the State Comptroller General (CG) who maintains the State's books (STARS) and noted the following:

1. The Department did not reconcile subfund 2837 revenues. We found that the Department's books and the CG's books differed by \$43,633.
2. The Agency failed to reconcile subfund 3035 at the level of detail required. The Department's books differed from the CG's books for cash and revenues by \$27,401 and \$111,541.
3. Reconciliations of federal funds were not signed and dated by both the preparer and reviewer for the fiscal months we selected for testing (03, 05, and 13).

The STARS Policies & Procedures Manual (STARS Manual) on the Comptroller General's website requires these reconciliations to be performed at least monthly on a timely basis, be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate. Monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the level of detail in the Appropriation Act.

We recommend the Department prepare monthly reconciliations in accordance with the STARS Manual instructions and to identify and correct errors in its accounting records and/or STARS as necessary.

## **TERMINATION PAY**

We tested a sample of 25 employee termination pay transactions and found that the Department underpaid three employees by a total of \$700. The underpayments occurred because the Department calculated the employees' annual leave payments using annual leave balances from May 2002 rather than June 2002. The May balances excluded annual leave earnings for the month of June to which the employees were entitled. The Department subsequently discovered and corrected the errors for two employees but did not discover the error for the third employee who was underpaid \$441. We did not review termination payments for all employees who terminated in June or July 2002 (and were thus entitled to June annual leave earnings) to determine if other errors were made.

An effective system of internal controls includes procedures to ensure that the entity prepares and timely processes proper documentation to support all personnel and payroll transactions. In addition, controls should be in place to ensure that errors are detected and corrected in a timely manner. In such a control environment, employees are adequately trained and knowledgeable to properly and timely perform their assigned duties and independent checks and verifications are included as control procedures. Also, State Human Resource Regulations section 19-709.05 states "Upon separation of employment, a lump-sum payment will be made for unused annual leave, not to exceed 45 days..."

We recommend that the Department develop and implement procedures to ensure that annual leave balances are paid to employees. Such procedures should include an independent verification of payroll computations and employee leave balances at the date of termination. Further, we recommend that the Department review termination payments for all employees who terminated in June or July 2002 to determine if other errors were made. The Department should remit to terminated employees amounts that were underpaid, including the \$441 noted above.

## **CLOSING PACKAGES**

### **Introduction**

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are prepared in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends assigning the responsibilities for preparation and independent supervisory review of each closing package to knowledgeable and trained employees and recommends performing an effective review of each completed closing package and the underlying working papers to minimize closing package errors and omissions. To assist in that process, the reviewer checklist must be completed for each closing package submitted.

### **Accounts Payable**

We reviewed the Department's accounts payable closing package and noted the following errors:

1. The Department overstated the accounts payable related to capital projects by \$756,310. The error was clerical in nature and was the result of including an additional digit in the amount reported. The Department reported \$840,341 instead of the correct amount of \$84,031. The reviewer's checklist in the GAAP Manual asks several questions, one of which would aid the reviewer in detecting this type of error. The question asks the reviewer to explain the reasons for significant variances between prior year and current year reported amounts. We saw no documentation to support that the reviewer had done this.

2. The Agency recorded a fiscal year (FY) 2002 annual lease payment of \$475,976 due in arrears as an expenditure in FY 2003 rather than in FY 2002. The Department failed to include the payment on its accounts payable closing package. Section 3.12 of the GAAP Manual states that payables at June 30 are amounts owed for goods and services that an agency both received on or before June 30 and paid for after June 30. Also, this condition is a violation of the FY 2002 Appropriation Act Proviso 72.3. which 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 ... to meet the ordinary expenses of the state government for Fiscal Year 2001-2002, and for other purposes specifically designated."

### **Operating Leases**

The Department overstated future minimum lease payments \$31,665 on its operating lease closing package. The overstatement was caused by two errors. First, the Agency reported in the closing package lease payments for copiers leased under the 1999 State contract. Second, the Department excluded executory costs from the minimum lease payments.

Section 3.19 of the GAAP Manual states "with the exception of copiers leased under the 1999 contract, your agency is responsible for completing Lease Register forms for all leases in accordance with the State Treasurer's Lease Reporting Package." This section further states that "executory costs that are part of the minimum lease payment to the lessor are excluded from the present value calculation but included as part of the future obligation in Part 14 of the lease register."

## **Operating Lease – Lessor**

The Department incorrectly calculated the future rental income on a lease in which the Department is the lessor. According to the lease agreement, the lease ends August 25, 2003. Therefore, the Agency should have recorded as future rental income lease payments for a full year for FY 2003 and for a full month (July) and a prorated month (August) for FY 2004. However, the Department reported a full year's rental income for fiscal years 2003 and 2004 and two full months for fiscal year 2005. The error resulted in an overstatement of future rental income of \$14,226 on the operating lease – lessor closing package.

The GAAP Manual provides a reviewer checklist that asks questions to aid the reviewer in detecting errors. Specifically, one of the questions asks the reviewer to recalculate the amounts reported in parts A and B of the operating lease lessor summary form and to trace supporting working papers to the amounts reported on the summary form.

## **Recommendations**

We recommend that the Agency carefully review and follow applicable GAAP Manual instructions for completing all closing packages. The Department should ensure that employees who complete and independently review the closing packages are properly trained in and knowledgeable of GAAP and GAAP Manual guidance and instructions for preparation of closing packages. Further, the closing package reviewer should perform an effective review of the closing package by completing the required reviewer's checklist including documenting the work performed, where applicable. Finally, the Department should establish effective procedures to ensure that goods and services received prior to June 30 of each fiscal year are paid with appropriations authorized in accordance with the Appropriation Act.

## **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, 2002, and dated July 5, 2002. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated the Terminations and Closing Packages findings.

**MANAGEMENT'S RESPONSE**

# South Carolina

Department of Parks, Recreation & Tourism

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Chad Prosser, Director

July 10, 2003

Mr. Thomas L. Wagner, Jr., CPA  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

We have reviewed the Accountant's Comments for the year ended June 30, 2002 and herein submit our comments:

## **Accountant's Comments**

### **Reconciliations**

The Finance Office has incorporated sub fund 2837 into the monthly reconciliations as of June 2003. We are working to resolve the inability to reconcile the State Park Revenue by the detail object code. The current Park Revenue Reporting System and the financial system general ledger are segregated systems in which the reporting time frames differ, hindering the reconciliation process. The Finance Director is approving the federal funds reconciliations as of June 2003.

### **Termination Pay**

The Human Resource Management Office has reviewed the termination payments for all employees who terminated in June or July 2002 to determine if errors were made relative to their payout. At this time, any errors found have been corrected and a new control has been put in place to avoid this in the future.

The Department of Parks, Recreation & Tourism will be implementing a new eleave system beginning in September 2003 and along with that procedures will be put into place to address Compensatory Leave balances and how they are taken and how they are paid out once they reach a certain number of hours and payout at termination of employment

### **Closing Packages – Accounts Payable**

The Department understands and agrees with the reporting errors within the package. A closer review of the completed package will be performed by the Finance Director. The lease payments as stated will be processed from the correct fiscal year funds as of Fiscal Year 2003.

### **Closing Packages - Operating Leases Closing Package**

The Department understands and agrees with the reporting errors within the package. In this package we miscalculated the future rental payments relating to the termination date of one contract and reported leases under the 1999 State contract and did not include the executory costs in the future lease calculations. The Finance Office will review the procedure for completing this package and make the necessary changes to prevent this error in the future.



We appreciate the assistance that the management letter provides to us in our internal control and fiscal management efforts and hereby give our release authorization. We thank you for all your help and advice during our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Amy Duffy", written over the typed name and title.

Amy Duffy  
Chief of Staff

cc: Chad Prosser  
Yvette Sistare  
Patsy Sowell

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