

August 12, 1999

The Honorable James H. Hodges, Governor
and
Mr. William R. Jennings, Director
South Carolina Department of Parks, Recreation and Tourism
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Parks, Recreation and Tourism for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, 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,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

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

STATE OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 1998

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

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the State Auditor and management of the South Carolina Department of Parks, Recreation and Tourism (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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 with those of the prior year, and, using other procedures, we tested the reasonableness of collected and recorded amounts for certain revenues. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 6 in Section B in the Accountant's Comments section of this report.
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; were paid in conformity with State 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with 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 findings as a result of these procedures are presented in Comment 5 in Section A and Comment 7 in Section B 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 that the vouchers were properly approved and that 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as, comparing current year payroll expenditures with those of the prior year, comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and, comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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. We found no exceptions as a result of the procedures.
4. We tested 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, 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.
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 accounting controls over the tested transactions were adequate. The items 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, 1998, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 1998. Our findings as a result of these procedures are presented in Comments 6 and 10 in Section B in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Management Letter Comments section of the Independent Auditors' Report on the audit of the financial statement of the Department as of and for the fiscal year ended June 30, 1997 to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section C 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, 1998, 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 Comments 1-4 in Section A and Comments 8 and 9 in Section B of 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, 1998, 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. Our findings as a result of these procedures are presented in Comment 10 in Section B of the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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, South Carolina Office of the State Auditor and the management of the Department and is not intended to be and should be used by anyone other than these specified parties.

Columbia, South Carolina
July 30, 1999

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

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

The procedures agreed to by the Office of the State Auditor 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 Department 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 control.

We noted the following material weaknesses:

1. FIXED ASSETS

Several deficiencies were noted from our review of the fixed assets closing package. The deficiencies included the following:

- (A) The Department could not provide us with detailed fixed asset listings as of June 30, 1998 for the following:

Land and improvements	\$35,332,528
Buildings and improvements	32,451,361
Machinery, equipment and other	10,398,182
Construction in progress	3,349,912

We also requested listings as of June 30, 1997 and the Department could not supply them to us for support of beginning balances.

- (B) The Department also did not provide us with detailed listings from the computerized fixed asset system to support the following for the year ended June 30, 1998:

ADDITIONS:	
Land and improvements	\$142,000
Buildings and improvements	238,800
Machinery, equipment and other	675,089

DISPOSALS:	
Land and improvement	3,962
Buildings and improvements	67,500

The Department did provide us with manually prepared schedules to support the above amounts.

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

1. FIXED ASSETS (CONTINUED):

- (C) The Department did not include any additions to construction in progress for the year. Total expenditures attributable to capital projects for fiscal year 1998 appear to be \$402,342.

Also, the Department made entries in the Net Reclassification column to transfer \$291,607 from construction in progress to land and improvements and buildings and improvements. The transfer amount appears to be related to current year expenditures.

The Department provided us a schedule of construction in progress that reflected the following:

Total budgeted amounts	\$31,084,724
Expenditures through June 30, 1998	27,037,164
Unexpended balance	4,049,560

No information was made available to us as to the amounts from this schedule that had been capitalized and not capitalized.

- (D) The amount reflected as outstanding commitments in the closing package was \$81,875. This amount appears low considering the unexpended balance for capital projects at June 30, 1998 was approximately \$4,000,000. The audit report as of June 30, 1997 indicated the capital projects in progress at June 30, 1997 would be complete by June 30, 1999.

- (E) Department personnel stated that the staff had many questions regarding the capitalization policy of the agency. The questions relate to the following:

- (1) Should certain infrastructure expenditures at parks such as water lines, parking lots, etc. be written off if previously capitalized and not be capitalized in the future?
- (2) Should the Department capitalize as leasehold improvements the cost of welcome centers that are constructed by the South Carolina Department of Transportation on interstate highways right of way lands owned by the South Carolina Department of Transportation.

No rent is paid by the Department to the South Carolina Department of Transportation.

The Department usually provides the necessary furniture, fixtures and equipment to operate the Center.

Sections 3.7 – 3.11 of the GAAP Closing Procedure Manual includes detailed instructions regarding the recording and accountability of transactions and documentation to support the balances and changes to fixed assets accounts.

We recommend that the Department obtain whatever assistance is required to get its fixed assets control and detail records up to date. Also, if the Department desires to change its capitalization policy, that should be approved by the Department's Director.

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

2. ACCOUNTS PAYABLE

The Department failed to include in its Accounts Payable Closing Package three vouchers totalling \$35,045 that were for goods and services that benefited the fiscal year ended June 30, 1998.

Section 3.12 of the GAAP Closing Procedure Manual requires the Department to include in its accounts payable closing package all purchases of goods and services that benefited the Department as of June 30, 1998 and prior and not paid for as of June 30, 1998.

We recommend that the Department carefully review all invoices received after June 30 and include in the accounts payable closing package all invoices for which the Department benefited from the goods and services that were received as of June 30 or prior.

3. OPERATING LEASES – LESSEE

The Department's closing package for operating leases included \$8,610 for a capital lease. This resulted in the operating leases total being overstated \$8,610 and capital leases and fixed assets additions from capital leases being understated.

Section 3.19 of the GAAP Closing Procedure Manual requires that only noncancelable operating leases be included in the year end closing package.

A similar finding was included in the Management's Letter Comments resulting from the audit of the Department's financial statements as of and for the year ended June 30, 1997.

We recommend that the Department's personnel properly classify leases between operating and capital. If capital, the fixed asset needs to be added to the fixed assets inventory.

4. REFUND RECEIVABLES

The refund receivable closing package reflected an amount due to the Department at June 30, 1998 of \$172,202. Of the 11 receivable items tested, 9 of the items totaling \$51,428 were for receipts received prior to June 30, 1998 and were **not** refund receivables. We did not determine the extent the balance was misstated.

Section 3.5b of the GAAP Closing Procedure Manual states that the Department is to report amounts due for which a bill has been issued and amounts due that can be reasonably estimated. Also, if appropriate, an allowance for uncollectible receivables should be recorded.

We recommend that the Department obtain a better understanding of the closing package instructions and assemble and report in its closing package the correct amount of refund receivables.

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

5. NON-PAYROLL DISBURSEMENTS – NO DIVISION OF AUTHORIZATION AND DISTRIBUTION OF CHECK VOUCHERS

Vouchers for cash disbursements are prepared and submitted to the State Treasurer for payment. The Department requests that the State Treasurer sends checks back to the person whom initiated them for payment.

A strong internal control system does not allow the same person who initiates payments to also receive the checks before sending them to vendors. This is a recurring finding from the prior two years.

We recommend that the duties of initiating cash payments and the distribution of checks be divided between two employees.

SECTION B - WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

6. RECEIPTS

One of the twenty-five receipts tested was not deposited timely. The customer's money order was received by the Department on August 4, 1997 and was not deposited until August 15, 1997.

Good accounting and internal control procedures require the timely depositing of all receipts, regardless of source or purpose received. Also, Proviso 1.1 of Part 1B of the 1998 Appropriations Act requires all receipts to be deposited at least once each week.

We recommend that all receipts be deposited promptly upon receipt.

7. NON-PAYROLL DISBURSEMENTS – DOCUMENTATION

No documentation was available to support one of the twenty-five non-payroll disbursements tested. The Department obtained a copy of the voucher and the two supporting invoices from the South Carolina Comptroller General's office to support this expenditure.

Good accounting and internal controls require the Department to maintain documentation supporting all expenditures.

We recommend that the Department retain all of the required documentation to support all expenditures.

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

8. GRANT/ENTITLEMENT REVENUES

The Department's answered question 7 in the Closing Package Control Checklist "No"; however, it submitted the closing package for Grant/Entitlement Revenues. The Department was not required to submit a closing package since total revenues from grant or entitlement funds for fiscal year 1998 were approximately \$452,000 and less than the required amount of \$750,000.

Section 3.3 of the GAAP Closing Procedure Manual requires a closing package for grant/entitlement revenues when the Department's revenues from these sources exceed \$750,000.

We recommend that the Department's personnel carefully follow the closing package instructions.

9. OPERATING LEASES – LESSOR

We noted the following deficiencies for operating leases-lessor.

A. FOOTING ERROR

The listing of total carrying amounts of property leased to others by category totaled \$948,207 compared to the total of \$959,512 shown on the operating lease lessor closing package. This appears to be an addition error.

Good accounting practices require that reports such as closing packages be verified for accuracy prior to submission.

We recommend that the totals for all itemized amounts be verified for accuracy prior to closing packages being submitted.

B. RENT CHARGES

Section 3.3 of the lease agreement for the pier at Hunting Island stated that the lessee agrees to pay the Department commencing with the third year of the lease for the period from January 1, 1997, and throughout the remaining initial term of this lease, 1999, a minimum base rent of Eighteen Thousand Dollars (\$18,000.00) paid annually of which the minimum base rent is subject to automatic escalation commencing on the first day of January of each year in proportion to the increases in the Consumer Price Index (C.P.I.) for the calendar year immediately preceding such years over such index for the base year of 1996. (The lease was amended to increase the rent from 1996 from \$18,000 to \$19,500. The amendment did not address periods after 1996.)

For purposes of the lease agreement the C.P.I. adjustment represents an increase in the original base rental determined by adding to the original base rental an amount that represents a percentage of it equal to the percentage of increase in the C.P.I. as of the last published C.P.I. immediately preceding each anniversary date over the C.P.I. as of the last published C.P.I. immediately preceding the commencement of the term. No adjustment shall be made that will reduce the base rental as adjusted by any prior C.P.I. adjustment.

**SOUTH CAROLINA DEPARTMENT OF PARKS, RECREATION AND TOURISM
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**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

C. RENT CHARGES (Continued)

Also, Section 3.4, in addition to the minimum base rent provided above lessee shall pay as additional rent, commencing with calendar year 2000, five percent (5%) annually on all gross proceeds of Lessee in excess of One Hundred and Fifty Thousand Dollars (\$150,000) per year. These additional sums agreed to be paid by Lessee in this paragraph based on annual gross proceeds shall be paid on or before the 15th day of March of the year following the year to which payment applies shall continue through the tenth year of the term.

The Department collected \$19,500 in rent for 1997 and 1998 and included \$19,500 per year through 2003 in its closing package.

Section 3.20 of the GAAP Closing Procedures Manual states the closing package is to include the minimum future rental payments to be received by the Department on property leased. The schedule in the closing package did not reflect any adjustments for the C.P.I. increase (Section 3.3) or the amount attributable to gross receipts (Section 3.4).

We recommend that the lease be reviewed to ensure the Department has been and will be paid the correct amount of rent. Also, the closing package should reflect the increases in rents as provided for in the lease.

10. FEDERAL FUNDS – CASH MANAGEMENT

The State Treasurer has selected for use by all State agencies for all federal programs the pre-issuance method of reimbursement. At June 30, 1998, the cash balance deficit in federal funds, as reported on the agency prepared Cash Management Improvement Act reconciliation schedule was approximately \$230,000.

We recommend that the Department comply with South Carolina's Cash Management Improvement Act agreement for the funding of its grants by Federal grantors. The Department should implement policies and procedures to ensure that it timely submits reimbursements requests for individual grants based on expenditures already incurred as well as those anticipated through the estimated date the funds will be received.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on both of the findings reported in the Management Letter Comments section of the Independent Auditor's Report on the audit of the financial statements of the Department as of and for the fiscal year ended June 30, 1997, dated January 30, 1998.

We determined that the Department has not taken adequate corrective action on either of the deficiencies that were included in the prior report. Similar findings are noted in Comments 3 and 5 in Section A in the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE
Attachment A

August 16, 1999

Rogers & Laban, PA
PO Box 124
Columbia, South Carolina 29202

We have reviewed the Management Letter Comments for the year ended June 30, 1998 and herein submit our comments about the findings:

A. Material Weaknesses

Fixed Assets

Management agrees with the deficiencies in the fixed assets closing package. While we believe that some of the information stated was supplied, it was not system generated and could not be system generated, therefore allowing for human error. We are obtaining assistance from the Comptroller General's Office to complete the fixed assets closing package correctly. We understand that detail records need to be provided to support the balances that we have in the fixed asset accounts and we will implement this recommendation.

Accounts Payable

Management agrees and will assure that all potential liabilities are recorded and reported according to the GAAP Closing Procedures Manual.

Operating Leases – Lessee

Management agrees and will properly classify leases between operating and capital.

Refund Receivables

Management agrees and understands what is required in the closing package and the recommendation will be implemented.

Non-Payroll Disbursements

Management agrees and has already implemented the recommendation.

B. Weaknesses not Considered Material

Receipts

Management agrees and deposits will be made promptly upon receipt.

Non-Payroll Disbursements – Documentation

Management agrees and has implemented a disbursement management system to ensure that expenditures have all support documentation.

Grant Entitlement Revenues

Management agrees and will follow the closing package instructions more carefully.

Operating Leases – Lessor

Management agrees and will ensure accuracy when reporting information in the closing packages.

Federal Funds – Cash Management

Management agrees and quarterly reimbursement requests are currently being done.

C. Status of Prior Findings

Management agrees and will ensure that corrective action be taken on prior year findings.

We appreciate the assistance that the management letter provides to us in our internal control and fiscal management efforts.

Sincerely,

Mandy M. Kibler
Director of Finance