

**SOUTH CAROLINA FORESTRY COMMISSION**  
**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2007**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
CAPITAL ASSETS CLOSING PACKAGE	7
FEDERAL FINANCIAL ASSISTANCE	7
OBJECT CODES	8
SECTION B - OTHER WEAKNESS	9
TERMINATION DATE	10
SECTION C - STATUS OF PRIOR FINDINGS	11
MANAGEMENT'S RESPONSE	12

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

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

(803) 253-4160  
FAX (803) 343-0723

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

February 15, 2008

The Honorable Mark Sanford, Governor  
and  
Commissioners  
South Carolina Forestry Commission  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Forestry Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2007, in the areas addressed. The Commission'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 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 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 general fund, earmarked, 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 (\$4,100 – General fund, \$37,200 – earmarked fund, and \$33,600 – federal fund) and  $\pm 10$  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 the 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 Commission, 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 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked 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 (\$80,000 – general fund, \$35,400 – earmarked fund, and \$34,900 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes in the Accountant's Comments section of this report.

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 STARS.
- 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 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 compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked 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 (\$80,000 – general fund, \$35,400 – earmarked fund, and \$34,900 – federal fund) and  $\pm 10$  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  $\pm 2$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Termination Date in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, and all 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 journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's 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 Commission'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 Commission's accounting records and/or in STARS.

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

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Commission 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 workpapers and accounting records.

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

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Commission 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 Federal Financial Assistance in the Accountant's Comments 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 Commission resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Commission had taken corrective action.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor  
and  
Commissioners  
South Carolina Forestry Commission  
February 15, 2008

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 and of the governing body and management of the South Carolina Forestry Commission and is not intended to be and should not be used by anyone other than these specified parties.

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

**ACCOUNTANT'S COMMENTS**

**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.

## **CAPITAL ASSETS CLOSING PACKAGE**

During our testing of the Capital Assets Closing Package we noted that the Commission did not remove the accumulated depreciation on asset retirements from the accumulated depreciation summary form. This error results in an overstatement of the June 30, 2007 accumulated depreciation balance.

The Comptroller General's GAAP Closing Procedures Manual Section 3.9, Capital Assets and Accumulated Depreciation Closing Package states, "Capital Asset Retirements – The State removes the book value and accumulated depreciation of a capital asset from its financial statements in the fiscal year of the retirement."

We recommend the Commission follow the guidelines set in the Comptroller General's Closing Procedures Manual to ensure that all applicable closing packages are accurately completed.

## **FEDERAL FINANCIAL ASSISTANCE**

We noted that the Commission received federal funds to purchase a mobile forest fire education center that they did not report on the Schedule of Federal Financial Assistance (SFFA). The Commission treated the funds as donations from the federal government and not federal financial assistance resulting in the SFFA being understated by \$50,000.

The SFFA should include all federal financial assistance. Office of Management and Budget, Circular A-133, Subpart A, Section 105 defines Federal financial assistance as: “assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance...”

We recommend the Commission include all federal financial assistance (other than vendor relationships) on their SFFA.

### **OBJECT CODES**

During our testing of disbursement vouchers we noted one of the twenty five (4%) vouchers tested was coded to an incorrect object code. The voucher was coded to object code 0205 - Medical and Health Services – Reportable. The transaction should have been coded to object code 0216 - Telephone and Telegraph. These object codes are defined in the Statewide Accounting and Reporting System (STARS) Manual.

We recommend that the Commission implement procedures to ensure that expenditures are properly coded to the appropriate object codes.

**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.

## **TERMINATION DATE**

Our test of employees who terminated employment during the procedures period identified ten instances out of twenty five (40%) in which the Commission did not remove the employee from Commission payroll records in a timely manner. The difference between the last work day and the date the employee was removed from the payroll records was from 9 – 654 days.

According to Commission personnel, the condition results from regional supervisors not alerting human resources in a timely manner when employees are terminated. Effective internal controls over payroll require terminated employees to be removed from the payroll system in a timely manner after their termination date.

We recommend the Commission implement procedures to ensure that employees who are not active or necessary be promptly removed from the Commission's payroll system.

## **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 Commission for the fiscal year ended June 30, 2006, and dated August 28, 2007. We determined that the Commission has taken corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**



PO Box 21707  
Columbia, SC 29221  
(p) 803.896.8800  
(f) 803.798.8097  
[www.trees.sc.gov](http://www.trees.sc.gov)

Henry E. (Gene) Kodama, State Forester

April 10, 2008

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

Dear Mr. Gilbert:

This is in response to the preliminary draft copy of your review of the Forestry Commission's accounting records for the fiscal year that ended June 30, 2007.

This report has been reviewed and I am authorizing its release. The Commission concurs with the comments in your report and has taken the necessary action to correct these items.

Thank you and your staff for your efforts on this audit. Your staff is very professional and should be commended for their efforts. We look forward to working with you and your staff on future projects.

Sincerely,

A handwritten signature in cursive script that reads "Henry E. Kodama".

Henry E. (Gene) Kodama  
State Forester

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