

SOUTH CAROLINA FORESTRY COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 30, 2014

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Forestry Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Commissioners 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, 2013, 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 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 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 (\$45,500 – earmarked fund and \$35,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Accounts Receivable Write-Off and Revenue Recognition in the Accountant's Comments section of this report.

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 South Carolina Forestry 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 current year expenditures at the subfund and account 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 (\$97,100 – general fund, \$54,500 – earmarked fund, and \$37,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the 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 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 year payroll expenditures at the subfund and account 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 (\$97,100 – general fund, \$54,500 – earmarked fund, and \$37,600 – 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. Our findings as a result of these procedures are presented in Employee Pay Calculation and Employee Termination in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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. Our finding as a result of these procedures is presented in Journal Entries in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the South Carolina Forestry Commission for the year ended June 30, 2013, and inspected selected reconciliations of balances in the Commission'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 Commission'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 Commission'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. We obtained all monthly reconciliations prepared by the Commission.

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 South Carolina Forestry 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.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Forestry Commission
July 30, 2014

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

We tested all individual transactions. 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 Commission's compliance with Appropriation Act general and agency specific provisos.

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, 2013, prepared by the South Carolina Forestry Commission 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 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, 2013, prepared by the South Carolina Forestry 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.

We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Forestry Commission resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012.

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Forestry Commission
July 30, 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 and of the Commissioners and management of 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.

ACCOUNTS RECEIVABLE WRITE-OFF

During our testing of revenues, we found that the Commission did not write-off an uncollectible account receivable in accordance with the Comptroller General's Office policy. Instead of charging the uncollectible account receivable to an allowance account or bad debt expense account the Commission reversed the original transaction by debiting a revenue account and crediting an account receivable account. Because the revenue was recorded in a prior fiscal year, current year revenues were understated.

Section 4 of the Comptroller General's Reporting Policies and Procedures requires agencies to write-off uncollectible accounts receivable to an allowance account or an expense account. If an allowance account is not used, the agency should record a bad debt expense.

We recommend the Commission implement procedures to properly record uncollectible receivables in accordance with Comptroller General's policies and procedures.

REVENUE RECOGNITION

During our cut-off test of revenues, we found that the Commission recorded one transaction in fiscal year 2014 that included three checks that related to June 2013 cabin rentals which were received prior to July 1, 2013. The Commission should have recognized the revenue in FY 2013. Commission personnel explained that personnel at one of the regional offices did not remit the payment for the rental of cabins in a timely manner. As a result the revenue was not received by the central office in time to be recorded in the proper fiscal year.

The State Treasurer's Office year-end close-out procedures require that revenue be recorded in the same fiscal year that the funds are received.

We recommend the Commission develop and implement procedures to ensure that deposits are remitted upon receipt so they may be deposited in a timely manner and recognized in the correct fiscal year.

EMPLOYEE PAY CALCULATION

In our test of employee additions, we found that for one of five new employees, the employee's first paycheck was calculated incorrectly. The employee was previously in a temporary position, was terminated, and rehired into a permanent position. Her first paycheck as a permanent employee included an automatic SCEIS adjustment due to differences between her new salary and scheduled work hours and her previous hourly rate. The adjustment resulted in a \$104 reduction to the employee's net pay. The employee's pay should not have been adjusted and the Commission did not detect the error during its review process.

The South Carolina Code of Laws, Section 41-10-40 (C) states: An employer shall not divert any portion of an employee's wages unless the employer is required or permitted to do so by state or federal law or the employer has given written notification to the employee of the amount and terms of the deductions as required by subsection (a) or Sections 41-10-30.

We recommend the Commission implement and/or improve controls and procedures to ensure that compensation is adequately reviewed prior to processing to detect errors.

REPORTING PACKAGES

In our test of GAAP Reporting Packages, we found that the agency reported inaccurate information on seven of its reporting packages. The Commission did not follow the Comptroller General's Office policies and procedures when completing the packages. The following describes the errors noted.

Litigation –

- The Commission reported two cases which have been filed but not yet decided, in which the Commission is a defendant. In reporting Potential (Gain) Loss, the agency enclosed amounts in parentheses, indicating potential gain rather than potential loss.

Compensated Absences –

- In Part 1, the Commission indicated that the CG Compensated Absences liability amounts were accurate and complete for all funds. During testing, we noted that for one individual, the CG's leave balance was incorrect because the leave balance included leave for FY13 that was not approved until FY14. As a result, Part 1 for the General Fund should have indicated that the SCEIS balance was inaccurate, and Part 2 should have reflected the correct amount.

Accounts Receivable –

- The Commission reported gross receivables of \$945 for Fund 30350000. Of this amount \$50 had already been received, but had been misclassified. A correction was made in April 2014.
- In Part II of the Other Accounts Receivables and Deferred Revenue form, the Commission was instructed to provide the G/L account number for the receivable asset. Instead, the agency provided the revenue G/L account number.

Refunds Receivable –

- The Commission was owed reimbursements totaling \$82,000 from other states which should have been included on the Refunds Receivable reporting package. These receivables were not reported.

Grants Receivables and Deferred Revenue –

- Federal Operating Grants Receivables were erroneously reported as non-current receivables rather than current.

Subsequent Events –

- The Commission indicated that it did not identify any uncollectible receivables as of the reporting package date (Question 6-a). However, the agency wrote off as uncollectible two receivables totaling \$1,725 between the submission of the Miscellaneous Receivables package and the submission of the Subsequent Event Questionnaire.
- Questions 8 and 11 were both answered “NO” incorrectly, and subsequent questions were not answered.

The Office of the Comptroller General’s Reporting Policies and Procedures Manual provides specific and detailed instructions for completion of the GAAP reporting packages.

We recommend the Commission implement policies and procedures to ensure proper completion and review of the reporting packages.

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.

JOURNAL ENTRIES

For two of 26 journal entries tested, the journal entry amounts were input into SCEIS incorrectly. The errors could have been detected if the person approving the journal entries had compared the amounts to supporting documentation. As a result, three general ledger accounts included incorrect balances at the end of the fiscal year.

Effective internal controls require procedures to ensure that entries agree to supporting documentation.

We recommend the Commission strengthen its policies and procedures to ensure adequate review of transactions. Entries should be compared to supporting documentation during the review process.

EMPLOYEE TERMINATION

During our test of employee terminations, we found that for one of the five terminations tested, the termination was not timely processed in SCEIS. The employee was active in the payroll system for one pay period subsequent to her termination. Even though the delay in processing did not result in an unauthorized payment, an error could have occurred. Allowing employees who are terminated to remain in the payroll system could result in improper payments.

We recommend the Commission develop and implement procedures to ensure that employees who terminate employment are removed from SCEIS in a timely manner.

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 South Carolina Forestry Commission for the fiscal year ended June 30, 2011, and dated May 24, 2012. We applied no procedures to the South Carolina Forestry Commission's accounting records and internal controls for the year ended June 30, 2012. We determined that the Commission has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE



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Henry E. (Gene) Kodama, State Forester

August 28, 2014

Richard H. Gilbert, Jr., CPA
Acting 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, 2013.

The Commission concurs with the findings and comments in your report and will take the necessary action as recommended by your staff. This report has been reviewed and I am authorizing its release.

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 black ink that reads "Henry E. Kodama". The signature is written in a cursive style with a long, sweeping underline.

Henry E. (Gene) Kodama
State Forester

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