

SOUTH CAROLINA FORESTRY COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 8, 2015

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, 2014, 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 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 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 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 (\$2,100 – general fund, \$60,200 – earmarked fund, and \$32,200 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the Commission'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. Our findings as a result of these procedures are presented in Revenue Recognition and Sale of Land in the Accountant's Comments section of this report.

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 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 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 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 (\$108,200 – general fund, \$79,900 – earmarked fund, and \$35,500 – 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 twenty-five 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 three selected recorded bonus payroll disbursements to determine if the selected disbursements were approved and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected payroll transactions for five selected new employees and five 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 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 (\$108,200 – general fund, \$79,900 – earmarked fund, and \$35,500 – 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 and Appropriation Transfers**

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

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2014, and inspected eight 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 four 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 twenty 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 twenty selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen haphazardly. 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 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, 2014, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reporting Package - Compensated Absences 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, 2014, 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.

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 Commission resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Commission had taken corrective action.

Our finding as a result of these procedures is presented in Revenue Recognition and Reporting Package - Compensated Absences in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Commissioners
South Carolina Forestry Commission
September 8, 2015

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 Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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



George L. Kennedy, III, CPA
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.

REVENUE RECOGNITION

During our test of revenues, we tested one transaction relating to a lease of land. The lease period was from 1/1/13-12/31/13. The Commission billed the lessee on July 25, 2013, received payment from the lessee on August 22, 2013, and deposited the receipt on August 23, 2013. Since the lease covered six months in FY2013 and six months in FY2014 half of the revenue should have been recognized in each fiscal year. In the past the Commission has split the lease payment and billed the lessee using two separate invoices in order to recognize the revenue in the proper fiscal year however, due to agency oversight the Commission billed the lessee on one invoice.

The South Carolina Comptroller General's Reporting Policies and Procedures Manual specifies that revenue from exchange transactions are to be reported in the fiscal year in which the exchange takes place regardless of when cash is received.

We recommend the Commission implement and enforce procedures to ensure that invoices are sent out in a timely manner and that revenue is recognized in the fiscal year that the goods or service were provided.

REPORTING PACKAGE – COMPENSATED ABSENCES

In our test of GAAP Reporting Packages, we found that the Commission reported inaccurate information on its Compensated Absences Reporting Package. The Commission did not follow the Comptroller General's Office instruction when completing the package.

We determined that three of the twenty-five randomly selected compensated absence balances on the Commissions Compensated Absences schedule did not agree to the balances reported in SCEIS. We determined that the Comptroller General's leave balance was incorrect due to changes made to employee leave balances after the cut-off date. Because of this discrepancy, Part 1 for the General Fund should have indicated that the SCEIS balance was inaccurate, and Part 2 should have reported the corrected balance.

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.

SALE OF LAND

During our analytical testing of revenues, we noted the Commission sold land during fiscal year 2014. The sale was properly approved and proceeds recorded. However the Commission did not remove the asset from its capital asset account. Also, the asset remained on the Commission's Capital Assets Reporting Package. This caused an overstatement of \$16,100.

The modified accrual basis of accounting requires separate transactions to record the sale of assets: one to record proceeds and another to remove the asset from the general ledger. The Capital Assets Reporting Package requires agencies to update and reconcile asset activity each year.

We recommend the Commission carefully review transactions, especially transactions that are not routine transactions.

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 South Carolina Forestry Commission for the fiscal year ended June 30, 2013, and dated July 30, 2014. We determined that the Commission has taken adequate corrective action on each of the findings, except for the comments titled Revenue Recognition and Reporting Package - Compensated Absences.

MANAGEMENT'S RESPONSE



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Henry E. (Gene) Kodama, State Forester

October 21, 2015

George L. Kennedy CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, S. C. 29201

Dear Mr. Kennedy:

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, 2014.

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 cursive script that reads "Henry E. Kodama".

Henry E. (Gene) Kodama
State Forester

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