

SOUTH CAROLINA FORESTRY COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 9, 2016

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Forestry Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by 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, 2015, 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 Commission'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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$2,600 – general fund, \$57,100 – earmarked fund, and \$32,500 – federal fund) and ± 10 percent.

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 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 Commission'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 performed an analysis of the Commission's procurement card activity and reviewed detailed support of selected procurement card transactions to determine if the transactions were in compliance with State procurement 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$101,800 – general fund, \$53,100 – earmarked fund, and \$34,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly or haphazardly. Our finding as a result of these procedures is presented in Procurement Card Transaction in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five selected employees' personnel records to determine if the selected employees' disbursements were properly described, classified, and distributed in the accounting records; they were bona fide employees; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Commission's policies and procedures and State regulations.
- We inspected payroll transactions for eight 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 Commission'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 inspected all recorded bonus pay transactions to ensure they complied with State laws.
- 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$101,800 – general fund, \$53,100 – earmarked fund, and \$34,100 – 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 Commission's accounting records.

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

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

- We inspected ten selected recorded journal entries, and ten operating 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 Commission'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, 2015, and inspected two selected reconciliations of balances for each account 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 all recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Commission's policies and procedures and State regulations.
- We inspected all 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.

Non-Payroll Disbursements and Expenditures

- We inspected all recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Commission'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 all recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **Appropriation Act**

- We inspected Commission documents, observed processes, and/or made inquiries of Commission personnel to determine the Commission's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and Commission specific provisos, if applicable.

Our finding as a result of these procedures is presented in Foreign Travel in the Accountant's Comments section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 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, 2015, 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, 2014, to determine if the Commission had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Forestry Commission
September 9, 2016

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 transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 Commission 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.

PROCUREMENT CARD TRANSACTION

Condition:

During our review of fiscal year 2015 procurement card transactions, we noted several payments made to an aviation organization. Upon further inquiry with Commission staff, we were informed that this related to the Commission's annual inspection and repairs performed on one of their aircraft by another company other than the one noted with the payment. When the Commission employee attempted to use his procurement card to pay the company that actually performed the services, the merchant category code (MCC) was blocked and the payment could not be processed. The Commission then paid the noted aviation organization that neighbors the company that actually performed the work. The noted company then paid the correct company for the services performed, from the funds received in the procurement card transactions with the Commission.

Cause:

Agency oversight.

Effect:

The Commission used a procurement card to purchase goods and services in violation of State procurement policy.

Criteria:

The South Carolina Division of Procurement Services Materials Management Office Purchasing Card Policy and Procedures states in section IV. D. 11, "The following types of purchases are strictly prohibited by State policy. No exceptions will be granted unless obtained in writing as set forth in this policy. This list must be included in lists of prohibited purchases in policies at the local agency and program level: Purchases using a P-Card from a vendor with a blocked MCC."

Recommendation:

We recommend the Commission update their policies and procedures to ensure procurement card transactions are processed in accordance with all relevant policies and regulations, as well as ensuring prior to any services being performed that the vendor does not have a blocked MCC.

Management's Response:

Each employee is provided agency and procurement guidelines which the liaison reviews with them prior to issuing them a procurement card. The Commission was made aware of the above condition and has addressed the issue with the both the liaison and the card holder. The Commission will review and make necessary updates to all procedures relating to the use of procurement cards on a regularly basis to ensure compliance with all MMO Policies and Procedures.

FOREIGN TRAVEL

Condition:

During our review of the Appropriation Act work program, we noted that one employee of the Commission traveled to Germany during fiscal year 2015. However, the Commission did not obtain prior approval from the Budget and Control Board before the foreign travel took place.

Cause:

Agency oversight.

Effect:

The Commission was not in compliance with South Carolina Code of Regulations 19-101.17.

Criteria:

South Carolina Code of Regulations 19-101.17 states, "Any foreign travel of a State employee will require prior approval of the Budget and Control Board regardless of the source of funds financing such travel. For the purpose of this regulation, foreign travel is defined as any destination outside the continental limits of the United States except Alaska, Hawaii, Canada, Puerto Rico, or the Virgin Islands."

Recommendation:

We recommend the Commission update their policies and procedures to ensure the proper approval is received prior to planning foreign travel. We also recommend the Commission establish additional review procedures to ensure compliance with State laws and regulations.

Management's Response:

The Commission will make necessary changes to internal travel procedures to ensure compliance with all State laws and regulations and that proper approval is received prior to any employee traveling out of country.

REPORTING PACKAGES

Condition:

Our testing of the Commission's fiscal year ended June 30, 2015 GAAP reporting packages resulted in the following:

1. The Commission's Grants and Contributions Reporting Package had a beginning balance and qualified grant payment amount that was different than the amount in SCEIS. The variance was \$1,324.
2. On the Commission's Compensated Absences Reporting Package, we noted that one of the twenty-five randomly selected compensated absences balances on the Commission's compensated absences schedule did not agree to SCEIS. We determined that the leave balance did not agree due to a change made to the employee's leave balance after the cut-off date. After inquiring with Commission staff, we were informed that the balance in question was corrected on the Subsequent Events Questionnaire. During our review of the Subsequent Events Questionnaire, we noted that the Commission correctly answered "Yes" to the question "Has your agency identified any late submissions of leave or time without pay reports for time prior to year-end since the submission of the forms in Section 3.17?" However, upon further review of the information submitted to the Comptroller General's Office, we noted that the Commission overstated the number of hours identified as late submissions of leave for several employees on the Compensated Absences Report. These hours were previously approved in a timely manner and did not require duplicate reporting to the Comptroller General's Office.

Cause:

1. Agency oversight due to an accrual basis adjustment for accounts payable on the Commission's FY14 grants and contributions reporting package.
2. Agency oversight related to staff not realizing the Compensated Absences Report was run on July 15, 2015 and requesting leave corrections for submissions that were created after July 1, 2015, but were already accounted for in the report.

Effect:

1. The Commission's Grants and Contributions Reporting Package does not agree to SCEIS. The variance was \$1,324.
2. The Commission sent incorrect information to the Comptroller General's Office, which understated the Commission's leave liability for several employees.

Criteria:

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate, and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the Commission develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual.

Management's Response:

The Commission will review and make all necessary changes to procedures to ensure that accuracy of all reporting packages.

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, 2014, and dated September 8, 2015. We determined that the Commission has taken adequate corrective action on each of the findings, except for the comment titled Reporting Package – Compensated Absences.

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