

**SOUTH CAROLINA DEPARTMENT  
OF NATURAL RESOURCES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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# State of South Carolina



## Office of the State Auditor

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DEPUTY STATE AUDITOR

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

July 13, 2015

The Honorable Nikki R. Haley, Governor  
and  
Members of the Natural Resources Board  
South Carolina Department of Natural Resources  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Natural Resources (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, in the areas addressed. The Department'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-five 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, restricted 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 (\$7,100 – general fund, \$102,600 – earmarked fund, \$156,300 – restricted fund, and \$156,100 – 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 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 Department, 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, restricted 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 (\$129,800 – general fund, \$104,600 – earmarked fund, \$148,400 – restricted fund, and \$166,900 – federal fund) and  $\pm 10$  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; and 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 twenty-five selected new employees and twenty 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, restricted 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 (\$129,800 – general fund, \$104,600 – earmarked fund, \$148,400 – restricted fund, and \$166,900 – 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  $\pm 10$  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, Operating Transfers between Funds and Interagency Appropriation Transfers**

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

5. **Composite Reservoir Accounts**

*Reconciliations*

- For each account, we obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected two selected reconciliations of balances in the Department'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 Department'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 Department's accounting records.

*Cash Receipts and Revenues*

- For each account, we inspected two months of 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.
- For each account, we inspected two months of 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.

*Non-Payroll Disbursements and Expenditures*

- For each account, we inspected two months of 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 Department, 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.
- For each account, we inspected two months of selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

We judgmentally selected the last month of the fiscal year and one other month. 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 Department'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 Department 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, 2014, prepared by the Department 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 Department resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Department 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 Natural Resources Board  
South Carolina Department of Natural Resources  
July 13, 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 Department 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 governing body and management of the South Carolina Department of Natural Resources and is not intended to be and should not be used by anyone other than these specified parties.



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.

## **REPORTING PACKAGES**

### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Department submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared or misstated. To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors casts doubt on the ability of the State's internal controls to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. Preparation and maintenance of working papers is a primary responsibility of each agency. The following describes the errors noted on certain fiscal year 2014 reporting packages:

## Grants and Contribution Revenue Reporting Package

During our testing of the Grants and Contribution Revenue Reporting Package, we noted the following:

- 1) The Department did not report SCEIS grant number P24018462814 on the Grants Activity Form 3.03.1. Based on our review, this grant had expenditures of \$17,539 and an ending fund balance of (\$17,539). This grant number was also incorrectly reported as P24018342814 on the Department's Schedule of Federal Financial Assistance (SFFA). Department personnel stated this grant was not included even though expenditures were incurred in fiscal year 2014, because the reimbursement was not received until fiscal year 2015. Personnel also stated the incorrect grant number on the SFFA was due to keying errors.
- 2) The Department did not report a \$4,571 accounts payable for SCEIS grant number P24019081614 on the Grants Activity Form 3.03.1. Department personnel stated this payable was not reported because she thought the dates that the goods/services were received was after June 30, 2014. We did note that this payable was properly reported on the Accounts Payable Reporting Package.

## Operating Leases Reporting Package

During our testing of the Operating Leases Reporting Package, we noted on Form 3.09.2 Operating Leases Summary Form – Lessor that the accumulated depreciation and total carrying value for the property listed for Fund 57878000 did not agree to the amounts reported in SCEIS Asset Explorer. The accumulated depreciation and total carrying value of the property listed for Fund 57878000 was understated and overstated by \$7,620, respectively.

According to Department personnel, when the SCEIS Asset Explorer report was generated during the process of preparing the reporting package, the depreciation for period 12 of fiscal year 2014 had not yet been posted. Therefore, the report was not accurate.

## Other Payroll Liabilities Reporting Package

During our review of the Other Payroll Liabilities Reporting Package we noted one instance in which the annual leave balance reported on the employee's leave statement did not agree to the annual leave balance reported on the SCEIS Compensated Absence Report which was utilized to prepare the reporting package. The employee's leave statement reported an annual leave balance of 356 hours while the Compensated Absence Report reported a leave balance of 364 hours. This error resulted in a compensated liability overstatement of \$164 for fund 10010000. Department personnel stated when the reporting package was completed they were unaware of leave taken by an employee prior to June 30 that had not been entered in SCEIS.

Section \_.17 of the Comptroller General's Reporting Package Policies and Procedures Manual states, "Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form."

## Recommendation

We recommend the Department strengthen its procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2013, and dated May 16, 2014. We determined that the Department has taken adequate corrective action on the finding. However, we noted other deficiencies during our reporting package testwork, which will be reported in Reporting Packages in Section A of the report.

**MANAGEMENT'S RESPONSE**

South Carolina Department of  
**Natural Resources**



**DNR**

Alvin A. Taylor  
Director

August 4, 2015

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

We have received your July 29, 2015 preliminary draft copy of the report resulting from your performance of agreed-upon procedures to the accounting records of our agency for fiscal year ended June 30, 2014.

In reference to this report, we concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future. Please accept this letter as my authorization to release the final report. Per your request, please find enclosed a listing of our current Board members and their emails and mailing addresses.

We would like to take this opportunity to thank your staff for their cooperation and commend them on their professionalism throughout this review. As always, it has been a pleasure working with you and your staff for the betterment of our agency and the state as a whole.

If you need additional information, please do not hesitate to contact me or our Internal Auditor, Ms. Angie Cassella, at 803-734-3948 or via email at [cassellaa@dnr.sc.gov](mailto:cassellaa@dnr.sc.gov).

Sincerely,

A handwritten signature in blue ink, appearing to be "A. Taylor", written over a light blue rectangular background.

Alvin A. Taylor  
Director

Enclosure

4 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$5.96. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.