

**SOUTH CAROLINA DEPARTMENT
OF NATURAL RESOURCES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2016



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 26, 2017

Mr. Alvin Taylor, Director
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Natural Resources (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

Mr. Alvin Taylor, Director
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
September 26, 2017

This report is intended solely for the information and use 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. However, this report is a matter of public record and its distribution is not limited.



George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Department of Natural Resources (P24)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$50,000 and 10% in general funds and \$250,000 and 10% for all other funds.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Findings

The date of receipt was not properly documented for one receipt transaction. As a result, we were unable to determine if this receipt was deposited in a timely manner.

Two cash receipts totaling \$28,289 were not recorded in the proper fiscal year. The receipts were received in fiscal year 2016 but were recorded in fiscal year 2017.

Management's Response

We concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$200,000 and 10%.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - The disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / verify proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

For selected federally funded cash disbursements/non-payroll expenditures we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment (as other transactions above) and applied uniformly to both federally assisted and other activities of the recipient.

We found no exceptions as a result of these procedures.

6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$200,000 and 10%.
8. Randomly select twenty-five employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation noting all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Randomly select seventeen bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - The transaction was appropriately documented and approved.
10. Randomly select twenty-five bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:
 - The employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
 - The employee does not make more than \$100,000 annually.
 - The bonus pay was split between funds according to the ratio of the employee's base salary, if applicable, and paid from the employee's approved funding source.

Payroll (Continued)

11. Randomly select twenty-two employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Randomly select twenty-four employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
13. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of +/- 10%.
14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

15. Randomly select twenty-one non-recurring journal entries and four transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, noting areas of noncompliance, if any.
17. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of these procedures.

Reporting Packages

18. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

Reporting Packages (Continued)

19. In addition to the procedure above, we will perform the following:

- Cash and Investments Reporting Package
 - Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Year-end Reporting – Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer’s Office Composite Bank Account reports and year end reconciliations.
- Grants and Contributions Revenue Reporting Package
 - Haphazardly select fifteen grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy.
- Inventory Reporting Package
 - Determine if reported amounts agree to the SCEIS Year-end Reporting – Inventory report. In addition, determine if the Department’s reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records.
- Prepaid Expenses Reporting Package
 - Determine if amounts agree to the SCEIS Year-end Reporting – Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
- Capital Assets Reporting Package
 - Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.
- Operating Leases Reporting Package
 - Determine if amounts agree to the SCEIS general ledger, the SCEIS Year-end Reporting – Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Payments for Supplies and Other Billing Charges and Other Adjustments); and (3) All future rental payments to be received for property leased to others.
- Other Payroll Liabilities Reporting Package
 - Determine if reported amounts agree to the SCEIS Compensated Absences report and/or Department prepared records.

Reporting Packages (Continued)

- Subsequent Events Questionnaire
 - Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Findings

The Grants and Contributions Revenue Reporting Package was not submitted to the Office of the Comptroller General by the due date established by the CG's Reporting Policies and Procedures Manual. The package was submitted three business days late.

The Department incorrectly calculated three amounts reported on the Prepaid Expenses Summary Form. As a result, the amounts reported for Total Prepaid, Current and Expensed were overstated by \$23,448, \$29,182 and \$23,757, respectively, and the amount reported for Non-Current was understated by \$5,734.

The future minimum payment to be received was improperly reported for one lease agreement on the Operating Leases Summary Form – Lessee. As a result, Total Minimum Future Rentals for fiscal year 2018 were understated by \$1,279.

The payments associated with one maintenance agreement, one service contract and four operating lease agreements were improperly classified on the Operating Leases Summary Form – Lessor. As a result, the amounts reported for One Time Rental Payments and Contingent Rental Payments were overstated by \$16,822 and \$1,494, respectively, and the amounts reported for Other Adjustments and Required Minimum Lease Payments for Operating Leases were understated by \$2,492 and \$15,824, respectively. Furthermore, the maintenance agreement and service contract payments were coded in the SCEIS general ledger as rentals instead of contractual services.

Management's Response

We concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future.

Capital Assets

20. Randomly select twenty-five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine the asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the Office of the Comptroller General's Reporting Policies and Procedures Manual.
21. Randomly select seven capital asset retirements and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine the asset was properly removed from the Department's books and the disposal was properly approved.

Finding

Ten low value assets totaling \$33,454 were improperly reported as capital assets in the SCEIS general ledger and SCEIS asset system. In addition, two assets were capitalized for the incorrect amount due to the improper allocation of sales tax or invoice charges. One asset was understated by \$300 while the second asset was overstated by \$31,672 in the SCEIS asset system.

Management's Response

We concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future.

Composite Reservoir Accounts

22. We confirmed with the Department that the OSA listing of two composite reservoir accounts is complete.
23. Obtain fiscal year reconciliations for each composite reservoir account and for each year end reconciliation, perform the following procedures:
 - Determine the reconciliation was timely performed and properly documented in accordance with State regulations, and was mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if any necessary adjusting entries were made in the accounting records.
24. Select one receipt (100%) from one year end reconciliation and haphazardly select five receipts from the other year end reconciliation to determine if they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, recorded in the proper fiscal year, and that the revenue collection and retention/remittance is supported by law.
25. Haphazardly select five disbursements from each year end reconciliation to determine if they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of these procedures.

Procurement Card Transactions

26. Haphazardly select ten procurement card purchases and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is reasonable based on the cardholder's position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the cardholder and supervisor.
 - The transaction did not exceed the single transaction limit or the individual credit card limit and there was no indication of transaction splitting.

Finding

Three procurement card purchases were not approved prior to payment. The supervisory approval dates reflected on the applicable monthly purchase summaries were either not documented or occurred after the payment date.

Management's Response

We concur with the findings and will implement the necessary corrective actions to prevent reoccurrence in the future.

Status of Prior Findings

27. Inquire about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the Department has taken appropriate corrective action.

We found no exceptions as a result of these procedures.

Board Minutes

28. Inspect the Department's Board approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.