

**SOUTH CAROLINA DEPARTMENT OF PARKS,
RECREATION AND TOURISM**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina
Office of the State Auditor

1401 Main Street, Suite 1200
Columbia, S.C. 29201
(803) 253-4160
FAX (803) 343-0723

GEORGE L. KENNEDY, III, CPA
STATE AUDITOR

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 22, 2015

The Honorable Nikki R. Haley, Governor
and
Mr. Duane Parrish, Director
South Carolina Department of Parks,
Recreation and Tourism
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Parks, Recreation and Tourism (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 Department'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.

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- 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$260,100 – earmarked fund, \$13,000 – restricted fund, and \$23,300 – 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 Department'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 Department's accounting records. The scope was based on agreed upon materiality levels (\$218,300 – general fund, \$243,700 – earmarked fund, \$13,700 – restricted fund, and \$28,700 – 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 thirty-four 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 Department's policies and procedures and State regulations.
- We inspected payroll transactions for twenty-five selected new employees and twenty-five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department'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.

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- 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$218,300 – general fund, \$243,700 – earmarked fund, \$13,700 – restricted fund, and \$28,700 – 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 Department'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 and Appropriation Transfers**

- We inspected twenty-five selected recorded journal entries, five operating transfers, and 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 Department'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 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

- We inspected eighteen selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected eighteen selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.

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- 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 Department.

Non-Payroll Disbursements and Expenditures

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

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Composite Reservoir Account Reconciliations in the Accountant's Comments section of this report.

6. **Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department 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.

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, 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 closing packages agreed with the supporting workpapers and accounting records

Our findings as a result of these procedures are presented in Miscellaneous Revenue, Inventory, Operating Leases, Attorney Fee Approval, and Employee Leave Balances 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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

We found no exceptions as a result of the procedures.

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 management of the Department 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.

REPORTING PACKAGES

Miscellaneous Revenue

As a result of our testing of the Department's Miscellaneous Revenue Reporting Package and supporting documentation, we noted that the amounts reported as receivables were inaccurate. The Department incorrectly reported the total Net Current Receivable as \$4,471 and Non-Current as \$12,358. Based on our test we determined the correct current balance to be \$16,358 and non-current balance to be \$1,894. As a result, the Department's reporting package understated Current Net Receivables \$12,358; overstated Noncurrent Net Receivables \$10,464; and understated Total Accounts Receivable \$1,894.

The Comptroller General's Policies and Procedures state, "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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."

We recommend the Department follow the policies and procedures established by the Comptroller General's Office to ensure that reporting packages are completed using the provided instructions. We also recommend the Department strengthen controls during the review process of reporting packages to ensure reported amounts are accurate and complete.

Inventory

During our testing of the Department's Inventory Reporting Package we found that the inventory for one of the state parks was not included on the Final Inventory Report. The inventory value at year end for the park was \$125,500. We also noted that the inventory for the Department's warehouse was not included in the total amount reported. The inventory value for the warehouse at year end was \$53,571. As a result of the two errors, the amount reported for total inventory was understated \$179,071.

The Comptroller General's Office Reporting Policies and Procedures Manual states that each agency should "Report the following types of inventories: Materials, supplies, and other goods held for future use or sale; merchandise for sale; manufacturing inventories of raw materials, work in progress, and finished goods; harvested crops and livestock to be slaughtered within one year; United States Department of Agriculture food supplies (commodities)." Additionally, "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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."

We recommend the Department strengthen its controls over the preparation and review of the Inventory reporting process to ensure that amounts reported are in compliance with the Comptroller General's Policies and Procedures.

Operating Leases

During our testing of the Operating Leases Reporting Package we agreed lease details on the reporting package to the terms specified in the lease agreement provided by the Department to ensure that future obligations and receivables were accurately reported. We

noted calculation errors in both the future minimum lease payments and future rental payments to be received. As a result of the errors, we noted the total future minimum lease payments was overstated \$604,162 and total future rental payments to be received was understated \$10,317.

The Comptroller General's Policies and Procedures state: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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."

We recommend the Department strengthen its review procedures over reporting packages to ensure that information reported is accurate and complete.

Attorney Fee Approval

As a result of our testing of the Department's Litigation Reporting Package, we noted that the Department paid attorney fees in excess of the amounts approved by the Attorney General for two of the three legal firms engaged by the Department. Authorized amounts were \$2,500 and \$25,000, whereas the Department expended \$3,030 and \$28,147 respectively. As a result, attorney fee expenditures exceeded the authorized amounts by a total of \$3,677.

South Carolina Code of Law Section 1-7-170 states, "(A) A department or agency may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him..."

We recommend the Department receive approval from the Attorney General for all attorney expenses incurred in order to be in compliance with State laws, rules, and regulations. Once the Department recognizes that the services will exceed the approved fee, we recommend the Department request approval from the Attorney General Office to increase the fee.

Employee Leave Balances

During our testing of the Other Payroll Liabilities Reporting Package, we noted four of twenty-five employee leave balances tested were incorrect. The Compensated Absences Report documented that three employees had more available annual leave than was reported in SCEIS (6/30/2014 Cumulated Time Evaluation Results Report). The fourth employee's compensatory time leave balance documented fewer hours than the employee earned as of the end of the fiscal year. Three of the discrepancies occurred as a result of leave taken during the fiscal year not being submitted timely. The fourth employee's leave balance was incorrect due to an incorrect time management status in SCEIS that prevented the employee from accruing leave at the appropriate rate. As a result of the exceptions noted above, the Department's compensated absences payroll liability was understated \$886, net.

The Comptroller General's Policies and Procedures state: "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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."

We recommend the Department follow the policies and procedures established by the Comptroller General's Office to ensure that reporting packages are completed in accordance with instructions. In addition, we recommend the Department strengthen its controls over leave submission and approval, to ensure accurate and complete reporting at fiscal year-end.

FOREIGN TRAVEL

During our review of the Department's compliance with state laws, rules, and regulations, we noted that the Department could not provide documentation of approval from the Budget and Control Board for its employees' foreign travel.

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."

We recommend the Department develop and implement procedures to ensure compliance with Regulation 19-101.17.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

During our review of the Department's Schedule of Federal Financial Assistance, we noted that the total receipts and expenditures reported did not agree to supporting documentation. We found that the receipts and expenditures for one grant were not included in the total for that year's grant activity because the grant account was not set up correctly in SCEIS. Because of this error, total receipts and expenditures on the schedule were understated \$57,600.

The State Auditor's Letter of Instructions states, "if the amounts of the SFFA do not trace directly to the agency general ledger accounts please provide a separate schedule which reconciles the SFFA to the agency general ledger."

We recommend the Department strengthen controls to ensure that grants are set up correctly in SCEIS to enable the proper tracking of grant activity.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

During our testing of the Department's three Composite Reservoir accounts, we noted that selected monthly reconciliations were not signed and dated by the preparer. Additionally, we noted that the review process was not documented by the Department when the reconciliation was complete.

Good internal controls would include procedures to detect and timely correct errors.

We recommend the Department develop and implement monthly reconciliation review procedures for all composite reservoir accounts and ensure proper documentation of the reconciliations.

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 Department of Parks, Recreation and Tourism for the fiscal year ended June 30, 2013, and dated June 20, 2014. We determined that the Department has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

We have reviewed the Accountant's Comments for the year ended June 30, 2014. We agree with the findings and will work to ensure corrective action is taken to eliminate these findings in the future.

We appreciate the audit detecting these issues and have worked with the staff responsible for each to ensure these oversights of information are corrected in future reporting packages.

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