

Department of Natural Resources  
Independent Accountants' Report on  
Applying Agreed-Upon Procedures  
*for the year ended June 30, 2004*

State of South Carolina

Office of the State Auditor

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STATE AUDITOR

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June 21, 2005

The Honorable Mark Sanford, Governor  
and  
Members of the Natural Resources Board  
South Carolina Department of Natural Resources  
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2004, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

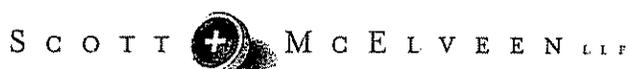
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## Contents

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Independent Accountants' Report on Applying Agreed-Upon Procedures .....	1-4
Accountants' Comments	
Section A – Material Weakness and/or Violation of State Laws, Rules, or Regulations ...	5-6
Section B – Other Weaknesses Not Considered Material .....	6
Management's Response .....	7-10



## Independent Accountants' Report on Applying Agreed-Upon Procedures

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Mr. Thomas L. Wagner, Jr., CPA  
 State Auditor  
 State of South Carolina  
 Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the accounting records of the Department of Natural Resources (the "Agency") for the fiscal year ended June 30, 2004, in the areas addressed. The Agency'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 users of the 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 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections of this report.

CERTIFIED PUBLIC ACCOUNTANTS

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## **2. Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Agency, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

## **3. Payroll Disbursements and Expenditures**

- We inspected 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, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section B in the Accountants' Comments sections of this report.

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

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

#### **5. General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger, and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

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

#### **6. Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Agency's accounting record to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 amount to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections of this report.

#### **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel, and observation of agency personnel performing their assigned duties, the Agency's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

We found no exceptions as a result of the procedures.

## 8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting work papers and accounting records.

We found no exceptions as a result of the procedures.

## 9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, prepared by the Agency and submitted 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 were reasonable; and if they agreed with the supporting work papers and accounting records.

We found no exceptions as a result of the procedures.

## 10. Status of Prior Findings

There were no findings reported in the Accountants' Comments section of the State Auditor's Report on the Agency resulting from the State Auditor's Report for the fiscal year ended June 30, 2002. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2003.

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 areas, 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 the Board of Trustees and the management of the Department of Natural Resources and the management of the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
June 15, 2005

## **SECTION A – MATERIAL WEAKNESS AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

The procedures agreed to require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing internal controls. A material weakness is a condition in which the design or operation of one of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section has been identified as a violation of State Laws, Rules, or Regulations, but is not considered to be a material weakness.

### **Cash Receipts and Revenues**

Our testing of receipts revealed that an incorrect object code was use to record a receipt related to the repayment of annual leave by a terminated employee. Object code 0189 (Expenditure for Terminal Leave) was used rather than the correct object code 3801 (Refund of Prior Year Expenditures). STARS Manual Section 2.1.6.10 defines the object codes to classify revenues correctly.

We recommend that the Agency thoroughly review the general ledger coding before processing deposits to ensure that receipts are properly posted.

### **Reconciliations**

Our testing of the fiscal month 13 reconciliations for cash, receipts, and disbursements revealed that the reconciliations were not dated and signed by the reviewer.

Section 2.1.7.20 of the STARS Manual requires that monthly reconciliations be approved in writing by an appropriate agency official other than the preparer.

The preparer should be responsible for correcting errors detected by the reviewer. If the reviewer returns the reconciliations to the preparer after review, the preparer can ensure that all reconciliations have been reviewed and proper notations have been made to that effect. We recommend that additional care be taken to ensure that all monthly reconciliations are dated and signed by both a preparer and reviewer.

### **Reconciliations**

Our testing of the monthly reconciliations for cash, receipts, and disbursements revealed that the monthly reconciliations for fiscal months one and two were not prepared by the agency.

Section 2.1.7.20 of the STARS Manual requires that agency personnel perform monthly reconciliations between the agency's accounting records and the balances recorded on the STARS reports.

If monthly reconciliations are not performed, transaction-posting errors to the agency's general ledger and/or the Comptroller General's STARS reports may not be detected. We recommend that the Agency implement a policy to ensure that monthly reconciliations are performed for cash, receipts, and disbursements.

## **SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

The conditions described in this section have been identified as weaknesses subject to correction or improvement, but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

### **Payroll Disbursements and Expenditures**

Our testing of payroll disbursements and expenditures revealed several instances where there was a lag between the last day a terminated employee worked and the noted date of termination in the payroll system. The lags ranged from one week to 24 months.

Good internal controls require that terminated employees be removed from the payroll system immediately upon termination.

We recommend that the Agency communicate to its staff, particularly those at a supervisory level, the importance of informing Human Resources immediately upon knowledge that an employee has been terminated.

### **Payroll Disbursements and Expenditures**

Our examination of personnel files disclosed that two employees' personnel files did not contain an Employee Profile or Personnel Action Form. In addition, for one employee there was no signed election form to support a voluntary withholding to the State Credit Union. Because of the lack of this documentation we were unable to verify the employees' gross wages and net wages.

Good internal controls require that employees' personnel files contain a current Employee Profile or Personnel Action Form stating the current gross wage rate. In addition all personnel files should contain signed documentation by employees supporting all voluntary payroll withholdings.

We recommend that the Agency thoroughly review all personnel files to ensure that an Employee Profile or Personnel Action Form is present showing the current gross wage rate. In addition the Agency should review all personnel files to ensure that all files contain signed documentation by the employee showing authorization for all voluntary payroll withholdings.

South Carolina Department of  
**Natural Resources**



John E. Frampton  
Director

Carole Collins  
Deputy Director for  
**Outreach and Support Services**

June 27, 2005

Mr. Randy Scott  
Scott & MsElveen, LLP  
1441 Main Street, Suite 8388  
Columbia, South Carolina

RE: Agreed Upon Procedures Audit  
Responses to Potential Management Letter Comment

Monthly Reconciliations Signed:

The Controller that was in charge up to October was Tony Bates. When we ran the final reports I did not get the Controller to come back to sign off on the final report that we ran in October. The Controller did sign off on a preliminary report made at the end of August 2004. This was an oversight on my part.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Myers" followed by a stylized flourish.

Charles R. Myers  
Controller

# South Carolina Department of Natural Resources



John E. Frampton  
Director

Carole Collins  
Deputy Director for  
**Outreach and Support Services**

June 21, 2005

Mr. Randy Scott  
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Monthly Reconciliations:

It is the practice of the agency's accounting personnel to prepare a complete and formal account reconciliation at the end of Fiscal Month 03 due to the date that we receive FM01 and FM02 Reports from the Comptroller General. We have found that there will be many corrections made in FM01 and FM02. By the time FM03 is complete all corrections have been made and a formal reconciliation can be done that will include FM01 and FM02. We also have an internal report called a comparison report that we run each day from the Comptroller General's Office. We daily correct any vouchers, journal entries, IDTS and bank deposits. We also check the beginning cash balances and all budget balances when we load the beginning cash balances for the next fiscal year in July. The books are not neglected for these two months, but a formal reconciliation is not completed until Fiscal Month 03 due to the date we receive FM01 and FM02 Reports from the Comptroller General. We will change our procedures and complete a formal reconciliation for FM01 and FM02.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Myers". The signature is written in a cursive, slightly slanted style.

Charles R. Myers  
Controller

South Carolina Department of  
**Natural Resources**



John E. Frampton  
Director

Carole Collins  
Deputy Director for  
**Outreach and Support Services**

June 27, 2005

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RE: Agreed Upon Procedures Audit  
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Receipts:

We will make every attempt to educate our personnel that makes agency deposits to understand the difference between a refund of a prior year expenditure and a current year expenditure refund. This was a coding error.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Myers".

Charles R. Myers  
Controller

# South Carolina Department of Natural Resources



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Director

Carole Collins  
Deputy Director for  
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June 21, 2005

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#### Payroll Terminations:

Of the 5 noted instances out of 15 tested in which a lag occurred between the employees' last workday and their date of termination, all were part-time employees: one is incorrectly listed as permanent on the worksheet. Temporary personnel are only paid from a timesheet and the lags in time from their permanent terminations are not a factor in computing payroll.

One instance noted (#11) shows employee as permanent status on the worksheet, but employee was actually in temporary status when the noted Personnel Action Form was completed. This employee retired from permanent status 6/30/2002 and was rehired on 9/17/2002 as a temporary employee. The Personnel Action Form for the employee's termination effective 5/1/2004 is termination from temporary employment. Although the employee was in temporary status from 9/17/2002 till 5/1/2004, he did not receive any paychecks during this timeframe.

We will communicate the importance of completing the Personnel Action Form immediately when an employee will no longer be working.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Myers".

Charles R. Myers  
Controller