

**SOUTH CAROLINA DEPARTMENT OF
NATURAL RESOURCES**

COLUMBIA, SOUTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2012

State of South Carolina



Office of the State Auditor

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June 28, 2013

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

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2012, was issued by Elliott Davis, LLC, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 28, 2013

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Department of Natural Resources (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2012, 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 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 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 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 fiscal year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior fiscal 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 (\$232,000 – earmarked fund, \$361,000 – restricted fund, and \$490,000 – federal fund) and ± 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 these procedures.

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 in accordance with the Agency's policies and procedures and State regulations, 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.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current fiscal year expenditures at the subfund and account level to those of the prior fiscal 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 (\$225,000 – general fund, \$378,000 – earmarked fund, \$324,000 – restricted fund, and \$482,000 federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 processed in accordance with the Agency's policies and procedures and State regulations.
- We inspected payroll transactions for selected new employees and those 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 fiscal year payroll expenditures at the subfund and account level to those of the prior fiscal 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 (\$225,000 – general fund, \$378,000 – earmarked fund, \$324,000 restricted fund, and \$482,000 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 ± 5 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 these procedures.

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, 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 transactions selected were chosen randomly. We found no exceptions as a result of these 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 selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

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

6. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the fiscal year ended June 30, 2012, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency's accounting records.

Cash Receipts and Revenues

- We inspected 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 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 obtained all monthly reconciliations prepared by the Agency.

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 in accordance with the Agency's policies and procedures and State regulations, 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.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen randomly. We found no exceptions as a result of these procedures.

7. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and Agency specific provisos.

We found no exceptions as a result of these procedures.

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2012, 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 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.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the fiscal year ended June 30, 2012, prepared by the Agency 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 these procedures.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
June 28, 2013

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency resulting from our engagement for the fiscal year ended June 30, 2010, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011.

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

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, Office of the State Auditor, 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.



Columbia, South Carolina
June 28, 2013

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting package forms and/or financial statements that are accurate and prepared in accordance with instructions, complete, and timely". Our procedures related to the Agency's reporting packages disclosed the following exceptions:

1. We noted the Agency performed a physical inventory count of its fuel inventory, but it did not include the date of when this physical count was taken. Per the instructions for preparing the "Inventory Summary Form", the date of the physical inventory count must be documented.
2. The Agency submitted its "Grant Disallowance Report Form" to the Comptroller General's Office on August 22, 2012 when the due date was July 31, 2012 (Repeat Finding).

The Agency does not have procedures in place to ensure that all reporting packages include all required information as reflected in the Comptroller General's Reporting Policies and Procedures Manual and that all reporting packages are submitted timely. The date of the physical inventory count of the Agency's fuel inventory was unintentionally omitted from the "Inventory Summary Form". The late submission of the "Grant Disallowance Report Form" was due to the Agency's response to this respective section reflected on the "Master Reporting Checklist". At the time the "Master Reporting Checklist" was prepared, the Agency was not aware that it had to prepare and submit the "Grant Disallowance Report Form". It is important for the Agency to submit all required information to the Comptroller General's Office in a timely manner so that the Statewide Comprehensive Annual Financial Report reflects accurate financial data related to the Agency.

REPORTING PACKAGES (CONTINUED)

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

We also recommend that the Agency make appropriate adjustments to future reporting packages, if necessary, to correct the errors identified above.

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 Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency for the fiscal year ended June 30, 2010, and dated June 10, 2011. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011. Based on our current fiscal year procedures, we noted a certain recurring finding compared to fiscal year 2010. We have identified this repeat finding in the respective section of this report.

MANAGEMENT'S RESPONSE

South Carolina Department of
Natural Resources



DNR

Alvin A. Taylor
Director

June 28, 2013

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

Dear Mr. Gilbert:

This letter is in response to the Independent Accountant's Report on Applying Agreed-Upon Procedures to the accounting records of the South Carolina Department of Natural Resources (SCDNR) for the fiscal year ended June 30, 2012.

We have reviewed the report in detail and concur with the findings noted. SCDNR accepts the recommendations included in the report and will implement the necessary procedures to ensure all closing packages are completed and submitted in an accurate and timely manner.

We appreciate the manner in which the audit was conducted and commend the staff of Elliott Davis on their professionalism during this review.

Sincerely,

Alvin A. Taylor
Director