

**SOUTH CAROLINA
DEPARTMENT OF NATURAL RESOURCES
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

October 29, 2018

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), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 either for the purpose for 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 related to financial activity 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.

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 \$75,000 and 10% in general funds, \$350,000 and 10% in earmarked funds, and \$450,000 and 10% in restricted and federal 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, in accordance with Proviso 117.1 of the Appropriation Act.
 - 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 totaling \$240,355. As a result, we were unable to determine if this receipt was deposited in a timely manner in accordance with State law.

We observed three receipts that included over payments that were retained by the Department and not returned to the customer. Department personnel stated it has been an unwritten policy for years to only refund over payments over \$5 and that returning revenue less than that amount is not cost effective.

Management's Response

We concur with these findings and have purchased new date stamps for all parties that receive and process revenues/receipts. In addition, we are working to get special approval to only refund overpayments in excess of \$5 and document that approval in a written policy.

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 \$450,000 and 10% in general funds, \$300,000 and 10% in earmarked and restricted funds, and \$400,000 and 10% in federal funds.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
- Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
- Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, 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 and applied uniformly to both federally assisted and other activities of the recipient.

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

See **Capital Assets** section for finding regarding capitalization of assets.

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 \$450,000 and 10% in general funds, \$300,000 and 10% in earmarked and restricted funds, and \$400,000 and 10% in federal funds.

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 confirming 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 eleven bonus pay disbursements to determine:

- Employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- Transaction was appropriately documented and approved.

10. Randomly select twenty-five 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.

Payroll (Continued)

11. Randomly select twenty-five 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.
12. 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 greater than 10%.
13. 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 variations greater than 10%.

Finding

One employee that was terminated during fiscal year 2017 was overpaid by \$132 on their final paycheck. Department personnel stated there was a misunderstanding about the employee's last day worked.

Management's Response

We concur with this finding and have counseled the involved parties on the correct way to complete the Personnel Transaction Request.

Journal Entries and Transfers

14. Randomly select twenty-five journal entries and 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

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

Findings

In accordance with Proviso 47.2 of the fiscal year 2017 Appropriations Act the Department collects casual sales tax through quarterly reimbursements from the Department of Revenue. We observed the Department posted its fourth quarter reimbursement of \$31,501 for 2017 in fiscal year 2018 and, further, did not report this receivable on the Other Receivables Reporting Package.

The Department did not obtain approval from the South Carolina Office of the State Auditor for its fiscal year 2017 surety bond renewal. The Department requested retroactive approval in September 2018.

Appropriation Act (Continued)

Management's Response

We concur with these findings and have provided instruction to our new staff as to how both of these situations should have been handled in order to prevent reoccurrence in the future.

Reporting Packages

17. 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.

18. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend 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. Reconcile petty cash balances to the Office of the State Auditor (OSA) petty cash authorizations.

- Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and/or Department prepared records. In addition, haphazardly select up to five receivables to determine if the amounts were properly classified, calculated and reported.

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend 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.

Reporting Packages (Continued)

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend 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.

- Accounts Payable

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting -Prior Year Payables with Vendor and/or Department prepared records. Haphazardly select ten payables to determine if amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Prior Year Payables with Vendor report and/or Department prepared records.

- Litigation Reporting Package

Determine if the Department had approval from the Attorney General's Office to hire attorneys and to ensure proper coding of legal and attorney payments based on inspection of the SCEIS general ledger and the Yearend Reporting – Litigation Expense. Haphazardly select up to five transactions to inspect for proper approval, amounts charged within approved limits, and service date range.

- 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

Operating Leases Reporting Package

The Department coded payments for one lease to G/L Account 5030067180 (Equip & Supp - Print Enterprise & Mail) instead of to a rental G/L account. The Department also reported payments for another lease as One Time Rental Payments instead of Required Minimum Lease Payments. The Department attempted to make an adjustment for this error on the reporting package but used the wrong amount to correct it. Further, the Department made various classification errors on Part I (Current Rent Expense) of the reporting package.

Reporting Packages (Continued)

Findings (Continued)

Operating Leases Reporting Package (Continued)

The errors noted above resulted in the following misstatements: Contingent Rental Expenditures overstated by \$94; One Time Rental Payments overstated by \$21,440; Monthly Rental Payments overstated by \$731; Required Minimum Lease Payments understated by \$5,583; Future Minimum Lease Payments understated by \$12,329.

Other Receivables Reporting Package – See finding at **Appropriation Act**.

Subsequent Events Questionnaire

Question #14 on the Subsequent Events Questionnaire asks if agencies have identified any late submissions of leave. The Department answered no to this question. We compared balances reported on the CG's Compensated Absence Report as of June 30, 2017 to balances reported in SCEIS and identified a total variance of \$307,408 as a result of late submissions of leave. Therefore, the Department should have responded yes to question #14 and should have reported adjustments of leave to the CG.

The Department reported payables totaling \$44,592 on the Subsequent Events Accounts Payable Worksheet which had previously been reported on the Accounts Payable Reporting Package.

Management's Response

We concur with these findings and have provided instruction to our new staff as to how all of these situations should have been handled in order to prevent reoccurrence in the future.

Capital Assets

19. 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.
20. Randomly select fourteen capital asset retirements and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine to the asset was properly removed from the Department's books and the disposal was properly approved.

Findings

One selected capital asset acquisition was capitalized for the incorrect amount due to the exclusion of \$300 sales tax. The Department erroneously included this sales tax in the capitalized amount of a different asset.

The Department capitalized two assets with values of \$50 each. The minimum capitalization amount for this category of assets (Machinery and Equipment) was \$5,000.

The Department expensed \$46,000 for the installation of several assets. Also, the Department documented in its explanation of a variance in the 500300XXXX G/L account that it expensed \$102,217 for the purchase and installation of a filing system. These items should have been capitalized in accordance with the CG's Reporting Policies and Procedures Manual.

Capital Assets (Continued)

Management's Response

We concur with these findings and have provided instruction to our new staff as to how all of these situations should have been handled in order to prevent reoccurrence in the future.

Composite Reservoir Accounts

21. Obtain a listing of composite reservoir accounts and confirm with Department management that the listing is complete.
22. Obtain fiscal year monthly reconciliations for each composite reservoir account and for two of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are 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 necessary adjusting entries were made in the accounting records.
23. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
24. Haphazardly select and inspect five composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Findings

For the two selected monthly reconciliations for one composite reservoir account we observed no approval or review. In addition, for one of the selected reconciliations there was also no preparer signature.

The Department did not perform monthly reconciliations for another composite reservoir account.

Management's Response

We concur with these findings and have implemented monthly reconciliations and reviews/approvals.

Minutes

25. Inspect the Natural Resources Board's 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.

Governance, Risk and Compliance (GRC)

26. For the sole control identified through the SCEIS GRC system that was implemented in fiscal year 2017 inspect mitigating control documentation. Confirm with management the control is operating as designed.

We found no exceptions as a result of these procedures.

Procurement Card Transactions

27. Haphazardly select twenty-five procurement card transactions from the Comptroller General's listing of procurement card transactions for fiscal year 2017 to determine:
- a. The cardholder is an authorized user.
 - b. The purchase is authorized based on the cardholder's job title/position.
 - c. The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - d. The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

For two procurement card purchases the Department could not provide a month end bank statement or the DNR Monthly Summary form signed by the authorized card user and the authorized card user's supervisor.

Management's Response

We concur with this finding and have issued a reminder email to all staff about how procurement card documents should be handled when an employee leaves the agency.

Internal Audit Reports

28. We will inspect the Department's internal audit reports beginning with July 1, 2016 through the end of our fieldwork.

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

Other Reports

29. Inquire of management of any reports issued by external parties and discuss any recommendations and/or issues.

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

Status of Prior Findings

30. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found similar exceptions during our inspections of Cash Receipts/Revenues, Procurement Card Transactions, the Operating Leases Reporting Package, Capital Assets and Procurement Card Transactions. See findings in **Cash Receipts/Revenues, Reporting Packages, Capital Assets and Procurement Card Transactions**.