

South Carolina Department of Natural Resources

Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2005*

*State of South Carolina*



*Office of the State Auditor*

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June 29, 2006

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, 2005, 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,

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/trb

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Independent Accountants' Report on Applying Agreed-Upon Procedures

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Mr. 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 the Board of Trustees and management of the South Carolina Department of Natural Resources (the "Department") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the accounting records of the Department for the fiscal year ended June 30, 2005, 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 State Auditor. 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. We found no exceptions as a result of the 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, 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; 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; and 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. We found no exceptions as a result of the 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, 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. Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

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

- We inspected selected entries and monthly totals in the subsidiary records of the Department 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 purported monthly reconciliations prepared by the Department for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Department'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 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 Department's accounting records and/or in STARS.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

#### **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Department personnel and or observation of Department personnel performing their assigned duties, the Department'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 2005.

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

## **8. Closing Packages**

- We obtained copies of all purported closing packages as of and for the year ended June 30, 2005, 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 GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

## **9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

## **10. Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of our report on the Department resulting from our engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section A in the Accountants' 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 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, management of the Department, and 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 28, 2006

## Accountants' Comments

### SECTION A – MATERIAL WEAKNESSES 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 have been identified as violations of State Laws, Rules, or Regulations, or as material weaknesses.

#### Accounting System

Our testing of journal entries revealed that the Department makes single-entry journal entries in its accounting system to record revenues and expenses that are already recorded in the accounting system of the Comptroller General. This is due to the fact that the Department's accounting system does not have an account to track cash balances.

When recording or making corrections to revenues and expenditures, there should be a dual-entry transaction to show how these entries affect other account balances, primarily cash. That way the Department can have a real representation of all accounts and will be able to make sure that proper controls are in place, and ensure that revenues, expenses, and cash are properly controlled. The Department is currently reconciling cash balances manually which is a time consuming process which could be avoided with a new accounting system.

We recommend that the Department implement an accounting system that will allow them to make dual-entry transactions when recording or making corrections to revenues and expenditures. We understand that the Department has plans to implement the new state accounting system (SAP) in the near future.

#### Reconciliations

Our testing of monthly reconciliations revealed that the Department personnel cannot perform a reconciliation of cash, as noted in the accounting system comment described above.

### **Reconciliations (continued)**

In addition, the July 2005 (fiscal month 13) monthly reconciliation for receipts and expenditures was not dated and signed by the preparer or the reviewer. Management has represented to us that the reconciliation was performed and we noted evidence of this while reviewing the reports involved. Also when testing reconciliations, it was revealed that the supporting documentation explaining the reconciling items was not readily accessible.

Reconciliations provide assurance that transactions are processed correctly both in the Department's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper. STARS Manual Section 2.1.7.20 requires that monthly reconciliations be signed and dated by the preparer. In addition, it requires that the reconciliations be reviewed and approved in writing by an appropriate Department official other than the preparer. The STARS manual also requires that reconciliations be documented in writing in an easily understandable format with all supporting work papers maintained for audit purposes.

We recommend that the Department personnel sign off as prepared by and reviewed by on all reconciliations. Also, when performing monthly reconciliations, the preparer should maintain supporting documentation of reconciling items attached to the reconciliations. The inclusion of the supporting work papers will ensure that all reconciling differences are adequately explained.

### **Closing Packages**

Our testing of closing packages revealed that certain of them were not being submitted before the specified due date as instructed by the Comptroller General in their Policies and Procedures for GAAP Closing Packages. The cause was an oversight of the Finance department. The condition could cause delays to the State's process in consolidating the statewide accounting records.

We recommend that the Department submit all Closing Packages to the Comptroller General's Office before the due date to be in accordance with the GAAP Closing Package Policies and Procedures.

### **Litigation Closing Package**

Our testing of the Litigation Closing package revealed that the Department did not follow the Comptroller General GAAP closing package instructions. As part of the closing package, a Department must categorize the type of litigation settlements that had arisen during the fiscal year. If they had settled a suit but it did not require State funds then the Department should categorize the settlement as "N" and no further work would be necessary. If the Department settled a suit and it does require State funds then it should be categorized as "S" and the Department should fill out a "Settled Litigation Report Form". However the Department categorized a settled suit as "N" and then filled out the "Settled Litigation Report Form". The condition was an oversight of the Department and could cause confusion in the State's process of evaluating the type of on-going litigation in the Department.

We recommend that the Department follow all GAAP Closing Package instructions more closely.

## **SECTION B – STATUS OF PRIOR YEAR FINDINGS**

During the current engagement, we reviewed the status of the corrective action taken on the findings reported in the Accountants' Comments Section of the Independent Accountants' Report on Applying Agreed Upon Procedures for the fiscal year ended June 30, 2004, and dated June 15, 2005. We determined that the Department has taken adequate corrective action on all but one of the prior year findings. With regards to the findings relating to reconciliations, there are still instances where the procedures are in place but are not being properly followed. Therefore, this finding has been reported again for the current year procedures in Section A above.

# South Carolina Department of Natural Resources



June 30, 2006

John E. Frampton  
Director

Carole Collins  
Deputy Director for  
**Conservation Education  
and Communications**  
and  
**Administrative Services**

Mr. Richard H Gilbert Jr., Deputy State Auditor  
Office Of The State Auditor  
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RE: Agreed Upon Procedures Audit  
Responses to Potential Management Letter Comments

Because of system limitations, the Department does make single-entry journal entries. The Department reconciles cash balances manually. The Department in the very near future will be implementing the new state accounting system (SAP).

The Accounting Department will review the Litigation Closing package more closely in the future. We do not prepare the document. Our legal section prepares this package. We will therefore pay much more attention as to its completeness in the future.

The Department will make every effort to submit its closing packages on time to the Comptroller General's Office.

The Accounting Department will maintain supporting documentation and attach it to the reconciliations. We agree that these work papers will ensure that all reconciling differences are adequately explained.

Sincerely

Charles R. Myers Jr.  
Controller