

South Carolina Department of Natural Resources

Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2006*

# *State of South Carolina*



## *Office of the State Auditor*

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DEPUTY STATE AUDITOR

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June 28, 2007

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 certain agreed-upon procedures to the accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2006, 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/cwc

## Contents

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Independent Accountants' Report on Applying Agreed-Upon Procedures.....	1-5
Accountants' Comments	
Section A – Violation of State Laws, Rules, or Regulations .....	6
Section B – Other Comment .....	6
Section C – Status of Prior Findings.....	6
Management's Response .....	7

## 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 Members of the Board and management of the South Carolina Department of Natural Resources (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2006, 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 25 randomly 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 10 randomly selected recorded receipts before and after year-end 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 remittances were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 (\$98,000 – general fund, \$90,000 – earmarked fund, \$83,000 – restricted fund, and \$90,000 – federal fund) and +/- 10 percent.

We found no exceptions as a result of the procedures.

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

- We inspected 25 randomly 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; and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 randomly selected recorded non-payroll disbursements before and after year-end 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 at the subfund and major object code 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 Agency's accounting records. The scope was based on agreed-upon materiality levels (\$98,000 – general fund, \$90,000 – earmarked fund, \$83,000 – restricted fund, and \$90,000 – federal fund) and +/- 10 percent.

Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

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

- We inspected 25 randomly 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 5 randomly selected 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 5 randomly selected new employees and 5 randomly selected individuals 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 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 payroll expenditures at the subfund and major object code 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 Agency's accounting records. The scope was based on agreed-upon materiality levels (\$98,000 – general fund, \$90,000 – earmarked fund, \$83,000 – restricted fund, and \$90,000 – 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 or greater to ensure that payroll expenditures were classified properly in the Agency's accounting records.

We found no exceptions as a result of the procedures.

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

- We inspected 5 recorded journal entries, 5 operating transfers, and 5 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 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 selected entries 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 the procedures.

#### **6. Reconciliations**

- We obtained all of the monthly reconciliations prepared by the Agency for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected in the Comptroller General's 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 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 reconciliations selected were chosen judgmentally. We found no exceptions as a result of the 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 specific provisos.

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

**8. Closing Packages**

- We obtained copies of closing packages as of and for the year ended June 30, 2006, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers 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, 2006, 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; and if the amounts 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 findings reported in the Accountants' Comments section of the Independent Accountants' Report on the Agency resulting from our engagement for the fiscal year ended June 30, 2005, to determine if the Agency had taken corrective action.

We found no exceptions as a result of these procedures.

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, Members of the Board, management, 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.*

June 21, 2007  
Columbia, South Carolina



**ACCOUNTANTS' 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.

### **Moving Expenditure Approval Documentation**

SC Code of Laws Section 8-11-135 states that the payment of moving expenses for a new employee must be certified by the Agency Head as the total paid by the Agency toward the total moving cost incurred by the new employee. We haphazardly selected one of eight new employees that were reimbursed for moving expenses. We noted that the reimbursement paid to one employee in the amount of \$417 did not document that it had been approved by the Agency Head. According to Agency personnel, the Agency Head does review and certify all moving expenses.

We recommend the Agency's management implement procedures to ensure that all moving expenses are properly documented as certified by the Agency Head.

## **SECTION B - OTHER COMMENT**

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.

### **Disbursements**

An expense in the amount of \$5,000 incurred in fiscal year 2005 was not recorded and paid until fiscal year 2006. The invoice was dated June 20, 2005, but it was not stamped received into the finance department until November 7, 2005. Generally accepted accounting principles require expenses to be recorded in the period in which they were incurred.

We recommend the Agency's management implement procedures to ensure that all invoiced expenses are forwarded to the finance department in a timely manner for processing.

## **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 Accountants' Comments section of the Independent Accountants' Report on the Agency for the fiscal year ended June 30, 2005, and dated June 28, 2006. We determined that the Agency has taken adequate corrective action on all findings included in that report: Accounting Systems, Approval of Reconciliations, Closing Packages, and Litigation Closing Package.

# South Carolina Department of Natural Resources



John E. Frampton  
Director  
Carole Collins  
Deputy Director for  
**Outreach and Support Services**

June 26, 2007

Mr. Rich Gilbert, Jr.  
Interim State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

This letter is in response to Independent Accountant's Report on Applying Agreed-Upon Procedures for the year ended June 30, 2006.

In reference to the finding in Section A of the Accountant's Comments citing the Department's lack of documentation of agency head approval for the payment of moving expenses, the Department has immediately informed appropriate Division and Finance staff of the statute's requirement. Finance staff has been advised that payment requests shall not be processed without the required written approval. In addition, the Department is developing a formal written procedure to ensure that all moving expenses are properly documented and certified by the agency head. This procedure will be distributed to all appropriate Department personnel.

In reference to the finding in Section B of the Accountant's Comments citing the Department for payment in Fiscal Year 2006/2007 of an expense incurred in Fiscal Year 2005/2006, the Department was unable to obtain supporting documentation to "complete" the invoice prior to preparation of the closing package for Fiscal Year 2005/2006. Should the Department have processed the invoice without supporting documentation, it would have been in violation of state law by neglecting to ensure that the charge was an appropriate use of the restricted funds. The payee neglected to provide the documentation until October of the subsequent fiscal year in spite of numerous attempts by the Department to obtain such documentation. Therefore, the Department had no choice but to wait until there was a "complete" invoice with adequate supporting documentation to process the payment.

Sincerely,

A handwritten signature in black ink that reads "DeAnne Gray". The signature is fluid and cursive.

DeAnne Gray  
Business & Finance Manager