

SOUTH CAROLINA FORESTRY COMMISSION

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 28, 2007

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Forestry Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Forestry Commission (the Commission), solely to assist you in evaluating the performance of the Commission in the areas addressed. The Commission'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 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 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, 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 (\$4,884 – general fund, \$37,981 – earmarked fund, and \$39,788 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits 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. Our finding as a result of these procedures is presented in Revenue Cutoff in the Accountant's Comments section of this report.

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 Commission, 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 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, 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 (\$73,179 – general fund, \$36,445 – earmarked fund, and \$39,645 – federal fund) and ± 10 percent.

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 processed in accordance with the agency's policies and procedures and State regulations.
- We inspected 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 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 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, 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 (\$73,179 – general fund, \$36,445 – earmarked fund, and \$39,645 – 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. Our findings as a result of these procedures are presented in Payroll and Personnel in the Accountant's Comments section of this report.

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

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

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission 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 the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Commission's accounting records 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 amounts to the Commission'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 Commission's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. 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 Commission's compliance with Appropriation Act general and agency specific provisos.

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, 2006, prepared by the Commission 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 finding as a result of these procedures is presented in Capital Assets Closing Package 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 year ended June 30, 2006, prepared by the Commission 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.

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Forestry Commission
August 28, 2007

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 and of the governing body and management of the South Carolina Forestry Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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

ACCOUNTANT'S COMMENTS

VIOLATIONS 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

REVENUE CUTOFF

We determined that the Commission recorded two deposits which were received prior to July 1, 2006 as fiscal year 2007 transactions. The circumstances surrounding each deposit are described below.

1. On June 30, 2006 the Commission received funds after it had made its June 30th bank deposit. The Commission deposited the funds on July 1st. However, instead of processing the transaction as a fiscal month 12 (FY 2006) deposit, they processed the deposit as a fiscal month 01 (FY 2007) transaction. The State Treasurer's Office provides a memo to each State agency instructing them how to record cash received at year-end. The FY 2006 year-end memo notified agencies that they had until July 5th to deposit cash received and on hand at June 30, 2006 into FY 2006.
2. The Commission received funds in fiscal month 12 for services that would not be performed by the Commission until fiscal year 2007. The Commission did not deposit the funds when received but held the funds until July 2007. The Commission wanted to record the funds in the year the services were provided. The Comptroller General's Policies and Procedures Manual (STARS Manual) states that revenues collected in advance of the earnings process must be recorded as deferred revenues. In addition, by delaying the deposit the Commission did not record the funds timely as required by Section 72.1 of the Appropriation Act which requires agencies to deposit funds weekly, when practicable.

We recommend the Commission establish procedures to ensure that cash receipts are deposited in the proper fiscal year in accordance with the State Treasurer's instructions and the STARS Manual.

PAYROLL AND PERSONNEL

Employee Profile

We determined that the funding source shown on the Office of Human Resources (OHR) Employee Profile for three employees did not agree with the Commission's records. The Commission changed the funding source for each of these employees during the year; however, the OHR online Human Resource Information System (HRIS), which is used to generate the employee profile, was not updated to reflect the changes. In addition, the employee profile for a fourth employee incorrectly showed the base hours for the position as 1,950 rather than as 2,080. This appears to be the result of a data entry error.

Section 8-11-230 of the South Carolina Code of Laws requires the OHR to establish and maintain a central personnel data system on all State employees and, in coordination with agencies served, determine the data to be recorded on employees and positions and the procedures and forms to be used by all agencies in reporting data. In order to maintain the integrity and completeness of the central personnel data system (HRIS), all agencies are required to submit appropriate information in a timely manner.

We recommend that the Commission update HRIS for all changes in employee information on a timely basis.

Termination Documentation

The Commission was unable to provide us with documentation to support the termination date for an hourly employee.

Human Resources Regulations 19-719.02 A. states “An employee may resign orally or in writing. Such notification of resignation should be accepted by the agency in the same manner as provided, whether written or oral, and an oral acceptance of a resignation should be generally confirmed in writing.”

We recommend that the Commission develop and implement procedures to require a written resignation letter from each terminating employee. If the employee elects not to provide a written notification, the policy should require the employee’s supervisor to document the oral resignation in writing. This written documentation should include the effective date of the termination and be filed in the employee personnel file.

Time and Attendance Records

We determined that the compensatory time recorded on the Commission's leave system for one employee did not agree with the amount paid to the employee. The Commission's leave system reported that the employee had earned 2.25 hours but the employee was paid 4.5 hours at termination. We were able to obtain supporting documentation independent of the leave system to verify that the compensatory time paid was correct. In addition, the gross pay for one employee did not agree with the employee's timesheet. We reviewed the employee's flight report, which is used by the employee to prepare the timesheet, and determined that the gross pay was correct.

Human Resources Regulations 19-707.01 F. states "Each agency is required to keep an accurate record of all employees' scheduled hours of work and leave taken. Leave shall be recorded in the appropriate categories and shown as either leave with or without pay. The agency head has the ultimate responsibility for the accuracy and proper maintenance of hours of work and leave records."

We recommend that the Commission establish procedures to ensure that the leave system is properly updated to reflect all leave activity and that any discrepancies found be corrected promptly.

Withholding Deduction Authorizations

For three of the 25 employee transactions tested, the Commission was unable to provide us with documentation that withholding deductions were authorized by the employee. For each employee, we noted the following:

Employee One – no documentation was available to support the deduction

Employee Two – the amount for one deduction did not agree with the amount authorized and no documentation was available to support another deduction

Employee Three – the amount of the deduction did not agree with the amount authorized

Human Resources Regulations 19-720.02 A. states “Each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to...Copies of all human resources actions reflecting the employee’s work history with the agency.”

We recommend that the Commission ensure that all deductions are properly supported by authorizations signed by the employee and that the authorizations be properly maintained in the employee’s personnel file.

CAPITAL ASSETS CLOSING PACKAGE

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State’s financial statements from agency prepared closing packages because the State’s accounting system (STARS) is on a budgetary basis.

The Commission reported on its fiscal year 2006 Capital Asset Overview Questionnaire outstanding commitments of \$236,882. We reviewed supporting documentation and determined that the Commission should have reported \$216,882. The input error resulted in a \$20,000 overstatement. An independent review of the closing package failed to detect the error.

To accurately report the Commission’s and the State’s assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General’s GAAP Closing Procedures Manual (GAAP Manual) states that “The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State’s financial statements. The existence of even “small” errors tends to cast doubt on the State internal control structure’s ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes

safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger.” Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. In addition, Reference 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

We recommend that the Commission ensure that an appropriate individual other than the preparer carefully determine the accuracy and adequacy of documentation prepared, retained, and cross-referenced to support each closing package entry.

MANAGEMENT'S RESPONSE



SOUTH CAROLINA FORESTRY COMMISSION

Bob Schowalter, State Forester

October 17, 2007

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, S. C. 29201

Dear Mr. Gilbert:

This is in response to the preliminary draft copy of your review of the Forestry Commission's accounting records for the fiscal year that ended June 30, 2006.

This report has been reviewed and I am authorizing its release. The Commission concurs with the findings in your report and although they seem to be relatively minor will make every effort to correct them.

Thank you and your staff for your efforts on this audit. Your staff is very professional and should be commended for their efforts. We look forward to working with you and your staff on future projects.

Sincerely,

Bob Schowalter
State Forester

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