

South Carolina Department of Natural Resources

Columbia, South Carolina

Report on Agreed-Upon Procedures

*for the year ended June 30, 2000*



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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April 3, 2001

The Honorable Jim Hodges, 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, 2000, 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,

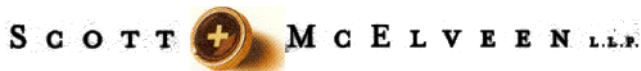
A handwritten signature in black ink, appearing to read 'Tom Wagner'.

Thomas L. Wagner, Jr., CPA  
State Auditor

## Contents

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Independent Accountants' Report on Applying Agreed-Upon Procedures.....	1 - 4
Accountants' Comments .....	5-6
Status of Prior Findings .....	7
Management's Response.....	8



## Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Natural Resources (the "Department") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 the 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 from sources other than State General Fund appropriation to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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2. We tested 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 and if internal controls over the tested disbursement transactions were adequate. We also tested 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 STARS as reflected on the Comptroller General's 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 1 of the Accountants' Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested 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 STARS as reflected on the Comptroller General's reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested 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. The journal entries, operating transfers and appropriation transfers selected for testing were chosen randomly. Our finding as a result of these procedures is presented as Comment 1 in the Accountants' Comments section of this report.

5. We tested 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 tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2000, and tested selected reconciliations of balances in the Department'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 recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if the 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. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. Our finding as a result of these procedures is presented in Comment 2 in the Accountants' Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1999 to determine if adequate corrective action had been taken. Our findings as a result of these procedures are presented in the Status of Prior Findings section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Department and submitted to the State Comptroller General. We reviewed 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. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Department and submitted to the State Auditor. We reviewed 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.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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, South Carolina Office of the State Auditor and the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina  
March 9, 2001

## Accountants' Comments



## Accountants' Comments

We noted the following matters during our engagement:

### 1. VOUCHER CANCELLATION

In 1 of our 25 selections in our test of non-payroll disbursements, the voucher supporting documentation was not cancelled to prevent re-entry and duplicate payment.

Effective internal controls over disbursements require that disbursement vouchers and supporting documentation be properly cancelled.

We recommend that the Department revise its written Policies and Procedures regarding disbursement vouchers. The guidelines should indicate, but not be limited to, the types of supporting documentation that are appropriate, and the appropriate method for canceling invoices and supporting documentation. We recommend that vouchers, invoices and all other supporting documentation be stamped paid or marked in a manner to prevent reuse, reprocessing and/or duplicate payment. We also recommend that the Department take measures to ensure that personnel understand the importance of canceling paid vouchers and supporting documentation, especially those vouchers under the threshold of requiring a Purchase Order. We further recommend that the disbursement vouchers be reviewed by appropriate Department personnel prior to filing to ensure vouchers and supporting documentation are properly cancelled.

### 2. APPROVAL OF INTERDEPARTMENTAL TRANSFERS

We noted that 8 of our 10 selections of interdepartmental transfers tested did not have a signature on the Interdepartmental Transfer Form (STARS form 40) indicating approval of the transfer.

The Interdepartmental Transfers Form (IDT) should be used to record transactions that involve the sale of goods or services or the award of grant monies by one state agency to another state agency. The IDT is a two-part form consisting of a credit and debit entry. The agency selling the goods or services completes the credit entry and the agency receiving the goods or services completes the debit entry. Specific instructions for completing the IDT are found in Section 2.1.3.72 of the STARS Manual. This section requires that the IDT be signed and dated by an authorized agency official acknowledging receipt of services or supplies, as applicable, and approving payment. The agency's internal controls allows for a stamp of the

## 2. APPROVAL OF INTERDEPARTMENTAL TRANSFERS (Continued)

Controller's signature to be used by the accounts payable clerk to acknowledge receipt of services or supplies, as applicable, and approving payment. Since the STARS form 40 is a duplicate form, the stamp does not transfer to the second page; therefore, the copy retained by the agency does not show approval.

We recommend that a responsible agency official, after reviewing each IDT for accuracy, completeness, adequacy of supporting documentation, and consistency with that support, stamp the top copy of the transfer form with the authorized signature, initial by the stamp indicating that the stamp was applied and date the form authorizing the transfer to meet the requirements of the STARS Manual and of an effective internal control system.

## Status of Prior Findings

### **Status of Prior Findings**

During the current engagement, we reviewed the status of corrective action taken on each of the three findings regarding deficiencies in the preparation of closing packages, the pay schedule for certain employees, and federal funds cash management which were reported in the Accountants' Comments section of the Rogers & Laban, PA Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1999, dated June 16, 2000. We determined that the Department has taken adequate corrective action on each of the findings in its fiscal year 2000 report.

## Management's Response

# South Carolina Department of Natural Resources



Paul A. Sandifer, Ph.D.  
Director

April 5, 2001

The Honorable Jim Hodges  
Governor of South Carolina  
P.O. Box 11819  
Columbia, South Carolina 29211

Dear Governor Hodges:

Upon review of the Auditor's report for FY 00, the following represents actions taken by the Department of Natural Resources to comply with the Auditor's recommendations:

Voucher Cancellation – Although the Department maintains that adequate controls are in place to substantially reduce the possibility of reuse or reprocessing of certain invoices, accounts payable personnel have been instructed to cancel all supporting documentation along with the copy of the invoice attached to all vouchers. These vouchers will then be filed in the accounting vendor file and secured, as is the current procedure.

Approval of Interdepartmental Transfers – As recommended by the Auditor, all agency IDT copies will show the signature and date authorizing the transfer of funds to pay other state agencies. This signature will be that of the Authorized Department Accounting Officer. It should be noted that all originals were signed, prior to processing to the Comptroller's Office, but the agency copies did not show the signature. This new process will satisfy audit recommendations.

The Department of Natural Resources will continue to monitor and improve all areas of financial responsibility and appreciates periodic reviews to determine areas that may need addressing.

Sincerely,

A handwritten signature in blue ink, which appears to read "Paul A. Sandifer".

Paul A. Sandifer  
Director

PAS:rms  
CC: Mr. John B. Reeves