

August 6, 1999

The Honorable James H. 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 of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, 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,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sj

**SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES  
STATE OF SOUTH CAROLINA**

**COLUMBIA, SOUTH CAROLINA**

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

**JUNE 30, 1998**

**SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES  
STATE OF SOUTH CAROLINA**

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## INDEPENDENT ACCOUNTANT'S 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 Office of the State Auditor and the governing body and management of the South Carolina Department of Natural Resources (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with 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 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 appropriations with those of the prior year; and, using other procedures, we tested the reasonableness of collected and recorded amounts for certain revenues. 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.
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; 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with 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. We found no exceptions as a result of the procedures.

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 that 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 various STARS 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 individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 accounting controls over the tested transactions were adequate. The items 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, 1998, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (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 that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or 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 all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1998. Our findings as a result of these procedures are presented in Section B in the Accountant's Comment section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 1997 to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section B in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, 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. Our findings as a result of these procedures are presented in Comments 1 and 2 in Section A of the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1998, 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 Board and management of the Department and is not intended to be and should be used by anyone other than these specified parties.

Columbia, South Carolina  
July 23, 1999

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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 1998**

**SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL**

The procedures agreed to by the Office of the State Auditor and the Department 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 Department is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components do 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 weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

**1. CLOSING PACKAGE ERROR – FIXED ASSETS**

Our review of the Fixed Assets Overview Questionnaire (Form 3.7.1, REV. 6/30/96) disclosed that retainage payable is the amount of \$82,881 was also included in the outstanding construction commitments of \$2,084,272. This resulted in the outstanding commitments being overstated by \$82,881.

Section 3.7 of the GAAP Closing Procedures Manual requires the Department to include in outstanding only those amounts for committed obligations for construction for which the goods and services were not received as of June 30.

The inclusion of the retainages payables in outstanding construction commitments schedules appeared to be due to the preparer subtracting payments to date from each contract amount and not taking the retainage amounts into account.

We recommend that the outstanding commitments schedule be prepared to include only those committed obligations for which the goods and services were not received as of June 30.

**2. CLOSING PACKAGE LIABILITY FOR COMPENSATED ABSENCES**

Our testing of 25 of the amounts included in the schedule of compensated absences resulted in one being in error. The employee took annual leave the last week in the fiscal year and his leave slip was not turned in timely. This resulted in an overstatement of 30 hours of leave time. The entry was made by the Department in July 1998 instead of June 1998.

Section 3.17 of the GAAP Closing Procedures Manual states that the Schedule for Compensated Absences shall include the accumulated accrued annual leave earned by its employees which is the **actual** annual leave balance in the Department's records for each employee.

We recommend that all employees be instructed to turn in their leave slips timely so the amounts can be timely updated as of June 30<sup>th</sup> each year. Also, should leave taken not be timely posted at fiscal year end, the Department's schedule of compensated absences should be manually adjusted.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on applying agreed-upon procedures on the Department for the fiscal year ended June 30, 1997, dated November 18, 1998. We determined that the Department has taken adequate corrective action on each of the deficiencies that were included in the prior report except as follows:

### **1. PAYROLL – PAY PERIODS**

The Department continued to not adhere to the State's payroll period/payday schedule for hourly employees. It pays hourly employees on the same pay dates as full-time employees but for 14 or 21 days according to a schedule created by the Director of Administrative Services. The alternate schedule, based on weekly time sheets, is used to facilitate computation of overtime pay to comply with the Fair Labor Standards Act. The State Budget and Control Board has not authorized the Department to use a payment schedule different from the one approved in Proviso 72.19 of the 1997-1998 Appropriation Act.

We recommend the Department comply with the established State pay period schedule.

### **2. FEDERAL FUNDS – CASH MANAGEMENT**

The State Treasurer has selected for use by all State agencies for all federal programs the pre-issuance method of reimbursement. Despite the State's policy, the Department continues to use the reimbursement method of funding. As a result, the Department has large federal cash deficits, temporarily funded with State funds. At June 30, 1998, the cash balance deficit in federal funds, as reported on the agency-prepared schedule of federal financial assistance (SFFA) was approximately \$4 million.

We recommend that the Department comply with South Carolina's Cash Management Improvement Act agreement by renegotiating the funding terms for its grants with Federal grantors to allow for pre-issuance funding. For those grants that the federal grantor will not allow pre-issuance funding, the Department should closely monitor the individual grants to continuously maintain as near a zero cash balance as practicable. The Department should implement policies and procedures to ensure that it timely submits reimbursement requests for individual grants based on expenditures already incurred as well as those anticipated through the estimated date the funds will be received.



**MANAGEMENT'S RESPONSE**  
**Attachment A**

August 5, 1999

The Honorable James H. Hodges  
State House, 1<sup>st</sup> Floor  
Box 11829  
Columbia, South Carolina 29211

Dear Governor Hodges:

Upon review of the auditor's report for FY98, the following represents actions taken by the Department to correct weaknesses not considered material.

Compensated Absences Summary - DNR will continue to encourage employees to turn in all leave slips promptly to ensure that leave is posted in a timely manner.

Fixed Assets Closing Package - DNR will no longer include the retainage in our outstanding commitments on this closing package, and will only include it in our Accounts Payable Closing Package.

Federal Funds - Cash Management - As noted in the Department's July 9, 1999, response to the FY97 audit, staff have been monitoring federal fund balances monthly during FY99 and have reduced the cash balance deficit by \$1 million. Efforts will continue in this area and discussions will continue with specific federal agencies about this concern and every effort will be made to further reduce this deficit. The Department currently requests reimbursements timely; however, several federal agencies continue to take several months to issue reimbursements. These agencies have been targeted for increased pressure to expedite payment. The Department feels that this action will generate positive results that should be acceptable and still allow our research/management programs to proceed in a professional and accountable manner.

The Department continues to express concern over monitoring weekly hours worked by temporary employees. An exception to Proviso 72.10 has been requested but denied. The reason for denial has not been clear and further discussion on this issue will continue.

Thank you for your cooperation and professional approach during the FY98 audit.

Sincerely,

Paul A. Sandifer,  
Director