Office of the Inspector General

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Review of the South Carolina Conservation Bank's Accounting Practices and Grant Funding Procedures

Case # 2017-2554-I

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I. Executive Summary

The South Carolina Office of the State Inspector General (SIG) initiated a review of the South Carolina Conservation Bank (Bank) at the request of the South Carolina Office of the Governor to assess the Bank's accounting practices and processes in connection with the Bank's funding of grants for land conservation efforts throughout the state.

Specifically, concern was conveyed of significant management and accounting issues at the Bank which delayed the transfer of $3 million to the South Carolina Department of Natural Resources (DNR) pursuant to Provisos 117.129 and 117.130 at the beginning of Fiscal Year (FY) 2018. Accordingly, the SIG's scope of review was limited to the review of the Bank's internal accounting practices, policies and procedures; and the Bank's budgeting and funding of approved grants for FYs 2017 and 2018.

Grant Budgeting, Approval, and Funding Process

The Bank has historically received a portion ($0.25/$1.30) of every state deed recording fee collected each year in accordance with SC Code of Laws §12-24-95. From these funds, the General Assembly appropriated the necessary funding for Bank operations and the funding of conservation grant requests. The funding, grant application process, and evaluation criteria are defined and set forth in §48-59-10 through §48-59-140.

Through these annual appropriations, the Bank's Board of Directors (Board) evaluated each grant application on the merits of the application and the codified evaluation criteria, and either approved or disapproved the application. The SIG determined through interviews of Bank staff the vast majority of applications were approved. However, there appeared to be no prioritization of grant applications, but more of a "first come, first served" basis in the approval process which was contingent on available funding.

The Board's grant approval process occurred in July and October/November of each fiscal year. Once a grant application was approved, the Bank withheld disbursement of funds to the eligible trust fund recipient until all of the necessary due diligence documentation was received by the Bank. The SIG conducted an audit sampling of 23 (49%) of the 47 grants funded in FYs 2017 and 2018. The SIG determined it took an average of 8.2 months for the Bank to receive this documentation during FYs 2017 and 2018. In those instances where an approved grant application failed to be funded prior to the fiscal year ending the Bank carried the approved grant into the new fiscal year.

While the decision to carry forward these approved/unfunded grants into the new fiscal year was within the Bank's statutory discretion [§48-59-50(6)], the budgetary spending authority did not carry forward. Consequently, the Bank's trust fund built a reserve of unspent funds from prior FYs which resulted in the Bank utilizing current FY appropriations to fund prior year grant commitments. This process had a direct impact on the transfer of $3 million to DNR at the beginning of FY 2018 as directed by the General Assembly in Provisos 117.129 and 117.130.

Transfer of $3 million to DNR

The funding source for the Bank's annual appropriations was changed for FY 2018. Instead of receiving a portion of the state deed recording fee for FY 2018, the Bank received an initial $5 million in Capital Reserve Funds for grant funding and Bank operations; $283,916 in General Funds for employee salaries and benefits; and $5 million in anticipated supplemental, non-recurring revenue through Proviso 118.14(B)(18). While the initial Capital Reserve and General Funds were received at the outset of FY 2018, the $5 million in supplemental, non-recurring revenue was contingent on the availability of funds as prioritized in the proviso.

Given the Bank's process of funding prior FY grant commitments with current FY appropriations the Bank did not prioritize the $3 million intended for DNR from its initial $5 million in FY 2018 appropriations. Instead, the Bank funded prior FY approved grants with the initial FY 2018 appropriations and did not have sufficient funds to execute the transfer of $3 million to DNR as required by Provisos 117.129 and 117.130. In October 2017, this shortfall in available funds was rectified by the return of $675,970 in grant funding from the Lord Berkeley Conservation Trust at the request of the Bank. On 10/10/2017, the Bank transferred the $3 million to DNR as directed by the two provisos. To date, the Bank has not received the $5 million in supplemental funding for FY 2018.

Internal Accounting Practices

Daily operations of the Bank are conducted by an executive director, business office manager, and an Information Technology (IT) employee. The SIG conducted an extensive review of the Bank's accounting practices, policies and procedures to ascertain the impact, if any, these practices had on the delay in funding of the $3 million to DNR. The SIG's review identified five general activities/processes which impacted sound business and accounting practices:

- Development of a detailed spending plan
- Lapse in grant funding within a fiscal year
- Segregation of duties
- Purchasing Card authority
- General oversight of daily operations

The Bank did not develop and utilize a detailed spending plan for its annual budget. A good budget practice should be the development of a detailed spending plan for the appropriations authorized in each FY. This allows the Bank's staff and Board members to know at any point in time if grant funding and operational expenditures are on budget, or if adjustments must be made during the FY. This was no less important than when the Bank was directed to set aside appropriations for a specific purpose, i.e., the transfer of $3 million to DNR for FY 2018. Additionally, SC Code of Laws §48-59-70 (L)(2) sets forth that at least ten percent of grant funding must be set aside for grants which afford public access.

The Bank's practice of carrying forward prior FY approved/unfunded grants into subsequent FYs negatively impacts funding for future conservation grants. The Bank's funding is contingent on the receipt of funds from multiple sources (gifts, donations, bequests) in addition to its annual appropriations. As noted for FY 2018, the Bank did not receive its appropriations from the state deed recording fee as in prior FYs, but instead from the Capital Reserve Fund and the General Fund. Given the SIG's analysis it took 8.2 months from the date the Bank approves the grant to the disbursement of funds suggests a prudent business practice would be to ensure grants are approved and funded within the same FY and budget spending authority.

The SIG's review of the Bank's accounting practices did not identify any misappropriation of funds or otherwise fraudulent behavior. However, three daily accounting practices unnecessarily raised the risk of potential fraud at the Bank. Specifically, these daily accounting practices were:

- Segregation of duties
- Purchasing Card authority
- General oversight of daily operations

The SCEIS Segregation of Duties Policy clearly identifies mitigating controls and the necessary segregation of accounting roles in order to reduce the risk of potential fraud or otherwise improper activity. The SIG determined that all phases of the Bank's daily accounting functions were concentrated with the business office manager, to include the Bank's postings to SCEIS. The SIG did not identify any SCEIS work flow for the Bank's executive director. Subsequent to the August 2017 retirement of the business office manager, a temporary employee assumed the roles of the Bank's business office manager with the same SCEIS authorities and without executive director oversight.

The State's Purchasing Card (P-Card) Manual provides that purchases must be approved by a supervisor, and this authority cannot be delegated to another person or involve self-approval. A review of SCEIS documentation identified the former business office manager self-approved purchases with no evidence of review or approval obtained from the supervisor, the executive director. This practice continued with the hiring of a temporary employee. Additionally, the P-Card Manual prohibits temporary employees from holding P-Cards.

Finally, the Bank's executive director provided minimal oversight of daily bank operations. The Bank did not maintain written procedures nor was a formal review of the Bank's spending habits conducted. Given the small staff size and the lack of segregation of duties, the executive director should have provided greater oversight and supervision of the Bank's daily operations, written procedures should have been documented and followed, and all expenditures should have been approved by the executive director.

Public Access for Approved Conservation Grants

The SIG conducted an audit sampling of 23 (49%) of the 47 conservation grants funded in FYs 2017 and 2018 to determine the amount and percentage of state appropriations utilized to acquire either fee simple or conservation easement interests which provided public access. These 23 grants accounted for $12,661,681 in conservation grants funded for these two FYs.

Public access is required by State law [§48-59-80(K)] for all "fee simple" grant approvals. Public access for conservation easements is determined through the provisions of each conservation easement, which can be either full, limited or no public access, and is determined through negotiations between the land owner and the eligible trust fund recipient and consistent with the terms of the easement (§48-59-100). SC Code of Laws §48-59-70(L)(2) stipulates the Bank's Board *"shall authorize at least ten percent of the monies credited to the trust fund during the preceding fiscal year for the acquisition of interests in land that provides public access."*

For FYs 2017 and 2018, the SIG's audit sampling determined eight (35%) fee simple grants and one (4%) conservation easement grant provided **full** public access. These grants were funded in the amount of $4,585,750 and represented 36% of the $12,661,681 in the sample of grants that were approved by the Bank. The SIG's audit sampling further determined six (26%) of the conservation easement grants provided **limited** public access and were funded in the amount of $2,497,681 (20%); while eight (35%) conservation easement grants provided **no** public access and were funded in the amount of $5,578,250 (44%) by the Bank.

Conclusion

The SIG did not identify any fraudulent conduct or misappropriation of funds during its review of the Bank's operations for FYs 2017 and 2018. However, several internal accounting practices were not in compliance with established statewide policies and procedures, and unnecessarily elevated the risk of potential fraud at the Bank.

Regardless of an agency's staffing size, large or small, the need for segregation of duties and providing supervisory oversight of financial transactions among personnel is essential to sound accounting and business practices. Equally important to ensuring funds are available for conservation grant funding is the development of a budgeted spending plan. Adhering to a detailed spending plan affords the Bank staff the ability to prioritize and set aside conservation funding pre-determined through the annual appropriation process (e.g., $3 million to DNR); or conservation funding which is statutorily defined for a specific purpose, such as a minimum of ten percent in grant funding for public access [§48-59-70(L)(2)], and thereby avoid the risk of having a shortfall in available funds for General Assembly directed conservation efforts.

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II. Background

A. Predicate

In November, 2017, the SIG initiated a review of the management and accounting practices and procedures of the South Carolina Conservation Bank (Bank) at the request of the South Carolina Office of the Governor *(see Appendix A)*. This request was predicated on the Bank's delay in transferring $3 million to the South Carolina Department of Natural Resources (DNR) at the beginning of Fiscal Year (FY) 2018.

The Bank's FY 2018 appropriations were based on an initial $5 million from the Capital Reserve Fund and supplemental, non-recurring funding of $5 million through Proviso 118.14(B)(18) to occur on or about December, 2017. In FY 2018, Provisos 117.129 and 117.130 directed the Bank to transfer $2 million and $1 million to the DNR as matching funds for the Pittman-Robertson Wildlife Restoration Funds and North American Conservation Act, respectively. However, the Bank funded three grant applications carried over from prior FYs which prohibited the Bank from fully conveying the $3 million to DNR as directed by the General Assembly through these provisos.

Most recently, the SC Legislative Audit Council (LAC) conducted an audit of the Bank's grant files for the period of FY 2002 through mid-FY 2016 addressing matters of concern in the Bank's issuance of grants *(see SC LAC Report – A Review of the S.C. Conservation Bank, 02/2017)*.

B. Scope and Objectives

The scope and objectives of this review were to:

- Review the Bank's accounting practices in its performance of financial transactions for FY 2018;
- Review grant files issued by the Bank for FYs 2017 and 2018;
- Make recommendations to improve the Bank's operations and controls.

Reviews by the SIG are conducted in accordance with professional standards set forth by the Association of Inspectors General, often referred to as the "Green Book."

C. South Carolina Conservation Bank

The Bank was established in 2002 by the General Assembly through the South Carolina Conservation Bank Act (SC Code of Laws §48-59-10 through §48-59-140), to administer the receipt and disbursement of funds from the South Carolina Conservation Bank Trust Fund (Conservation Trust Fund) in order to further the State's environmental and historical conservation interests. By FY 2005, the Bank began receiving its State appropriations in accordance with §12-24-95. These funds were to be used for issuing grants and loans to eligible trust fund recipients (defined in §48-59-30) with an interest in the conservation of property. This program allowed landowners to voluntarily sell property outright as a fee-simple purchase or enter into a conservation easement agreement with an eligible trust fund recipient and retain traditional use of the land. Since its inception, the Bank has only issued grants to approved eligible entities. According to the Bank's listing of conservation grant commitments, more than $151 million in grants to conserve more than 288,000 acres across the state have been approved since its inception *(see Appendix E)*.

At its inception, the Bank was comprised of only the executive director and a 14-member Board of Directors (Board). After starting with only one employee in 2002, the Bank was authorized an additional full-time equivalent (FTE) position for a business office manager in 2009. The Bank later maintained a temporary employee position for an intern to assist with business operations. In 2015, the Bank contracted for information technology (IT) services with an individual who was later hired as a temporary employee in 2016, and was granted a third FTE position for a Program Manager I in 2016. Presently, the office operates with one filled FTE position (executive director) and two filled temporary positions (business office manager and IT support).

III. Accounting Practices and Grant Funding Procedures

A. Budget

Each fiscal year, the Bank received state appropriations for personal services, other operating expenses, and the Conservation Trust Fund. Appropriated amounts were based on the Board of Economic Advisor's (BEA) estimates for state revenue received from the state deed recording fee. Additionally, the Bank could receive donations from private gifts, bequests and other government grants in addition to its annual appropriations. These funds were to be used to fund grant requests and bank operations. In accordance with §48-59-50(D) *"Operating expenses of the bank must be paid out of the trust fund."* Interviews conducted of Bank management determined for internal purposes the Bank used two different codes to separately account for funds expensed for the Bank's daily operations versus disbursements of grants.

The SIG determined through an interview of the Bank's former business office manager the Bank's annual operating expenses were estimated to be $270,000, and were inclusive of rent, copying costs, supplies, cell phones for Bank staff, travel expenses, Worker's Compensation and temporary employee compensation. These operating costs were paid from the Conservation Trust Fund as set forth in §48-59-50(D). The Bank, though able to satisfy its operating expenses throughout the year, did so without the use of a Budget/Spend Plan, which would allow prioritizing the funds needed for operation of the Bank and provide an accurate daily picture for its use.

In FY 2018, the Bank's funding from the state deed recording fee was suspended in accordance with Proviso 53.1. (CB: Conservation Bank Trust Fund) which stated, *"For Fiscal Year 2017-18, the provisions of Section 12-24-95 of the 1976 Code are suspended."* As an alternative, the General Assembly provided appropriations to the Bank in the amounts of $5 million from the Capital Reserve Fund for Bank operations and grant funding; $283,916 in General Funds for Bank administration (employee compensation, benefits and employer contributions); and an additional $5 million in anticipated supplemental, non-recurring funding contingent upon availability of funds as set forth in Proviso 118.14(B)(18). While the initial Capital Reserve and General Funds were received at the outset of FY 2018, the Bank has not received the $5 million in supplemental non-recurring revenue.

B. Cash and Check Handling Procedures

1. Miscellaneous Donations

Funds received by the Bank were generally via interdepartmental transfers (IDTs), except for the occasional paper checks or cash donation from miscellaneous donors such as The Citadel's Rod and Gun Club. Bank staff could not provide a written procedure as to how cash and check receipts were handled. The SIG determined through interviews of Bank staff the receipt and deposit of miscellaneous revenue resided principally with the Bank's business office manager. This process was further described as:

- The business office manager, and on occasion the intern, would open the mail;
- Any cash or checks received were prepared for deposit by the business office manager;
- Checks were endorsed "For Deposit Only" by the business office manager or executive director and two deposit slips were prepared;

- Either business office manager or intern deposited the funds and both deposit slips were validated by the receiving bank. One deposit slip remained with the Bank staff as confirmation of the deposit;
- The business office manager posted the receipt of funds in the South Carolina Enterprise Information System (SCEIS).

In accordance with the SCEIS Segregation of Duties Policy, agencies with limited staff should establish and document mitigating controls, to include direct management involvement in its activities. While the Bank's informal procedure of receiving and depositing cash and check donations included the involvement of the intern and executive director, the Bank did not have a formal written policy which adhered to the SCEIS Segregation of Duties Policy in order to ensure each individual involved in the process did not handle each aspect of the transaction. *(See Appendix B)*

2. Refunds from Eligible Trust Fund Recipients

As part of its mission, the Bank issued funds to eligible trust fund recipients through a codified grant application and evaluation criteria process (§48-59-70). On occasion, these funds were used as matching funds for both public and private sector entities which according to one land trust was unique to South Carolina; an equivalent funding source was not available for grants in other states. Eligible trust fund recipients would generally request funding from the Bank for an amount equal to or less than the value of the land or conservation easement with the intent of matching the funds against other federal funding sources, fundraising, or land value donations from the land owner.

During a review of grant files for 23 (49%) of the 47 grants funded in FYs 2017 and 2018, the SIG identified an instance in which a grant fund recipient refunded the Bank amounts for properties it received grant funds for in FYs 2015 and 2016. According to the application agreement, an entity is required to return unused funds within 60 days of receiving the Bank's disbursement of grant funds *(see Appendix D).* The checks received from this entity were received by the Bank well after the Bank's 60-day standard and the refund was initiated by the grant recipient's self-audit, not by the Bank. After being processed through normal Bank deposit procedures, copies of the checks or letters explaining the reason for the refund were placed in the corresponding grant file.

Through statute (§48-59-80), the Bank is required to retain records of the acquisition to include closing statements. The SIG determined, if closing statements were received by the Bank in a timely fashion, the documents would show whether an entity used the grant funds within 60 days for its intended purpose. The 2017 LAC report of the Bank's grant files for the period of 2002 – mid-2016 found "*73% did not have copies of the final closing/settlement statements in the file" (see SC LAC Report – A Review of the S.C. Conservation Bank, 02/2017).* The SIG's review determined all but 3 (13%) of the 23 properties closed within 60 days.

C. Disbursement Procedures

The Bank's disbursements consisted of expenses for daily Bank operations and grants issued to eligible trust fund recipients. Although the funds were held and disbursed from the same trust fund account, the procedures and level of oversight in disbursing the funds were different. Written procedures specific to the Bank did not exist. Neither was their oversight of Bank transactions, except as it related to the Bank's disbursement of grant funds. Bank staff informed the SIG, no approvals from Bank management were conducted through a SCEIS workflow or a hand-written signature on hardcopy documents maintained by the business office manager, except as it pertained to grant disbursements.

1. Operating Expenses

Normal disbursements of the Bank included payments for expenses such as: rent, parking, phone bills, copier expenses, supplies, and postage with many of these being paid using a Bank of America Purchasing Card (P-card) assigned to the business office manager. In the SIG's review of the Bank's FY 2018 operating expenses, the SIG found P-card statements with receipts, invoices and packing slips that traced back to the payment amounts; however, the executive director's (cardholder's supervisor) signature to approve these expenses was not included on any of the documents. The only signature present in the file belonged to that of the P-card administrator, who was also the cardholder on the Purchasing Card Statement Certification attesting to the purchases being in compliance with procurement laws, regulations, policies and procedures of the Materials Management Office (MMO) P-Card Manual. Discussion with Bank staff indicated the executive director was made aware of the transactions before they took place; however, the executive director's signature was not obtained for documented approval. This process was not in accordance with the P-card manual, neither was the issuance of a P-Card to the temporary employee following the August 2017 retirement of the business office manager. Bank staff indicated approval was received for this to occur due to limitations the agency was facing with only a temporary employee to handle operations. However, Bank staff was unable to produce documentation to support the approval.

In accordance with the P-Card Manual, *"Each Agency's internal P-Card policy must establish an internal control process and structure that ensures compliance with the Code and State PCard Policy. Internal controls shall include: No Cardholder can provide approval for payment for his/her transactions or of the P-Card cardholder activity statements. Review and approval responsibilities cannot be delegated to someone else."* It also states *"Cardholders must be full-time State employees…Cards may not be issued to part-time employees, temporary workers, or contractors."(See Appendix C)*

A review of other payment transactions made by the Bank followed a similar pattern of not having the proper approvals. Discussion with Bank staff and a review of the transaction workflows indicated approvals were made by the same employee who initiated the payment request in SCEIS. In accordance with the SCEIS Segregation of Duties Policy, for agencies with limited staffing, *"direct management involvement provides a strong deterrent to conflicting activities." (See Appendix B)*

2. Grants to Eligible Trust Fund Recipients

The Bank established grant application deadlines of January 31st and July 31st each FY for eligible trust fund recipients to submit applications for consideration by the Board. Applications received were then scored by the executive director based on conservation criteria, financial criteria, and public access in accordance with SC Code of Law §48-59-70. Completed applications were forwarded to the Board two to three weeks in advance of the Board meeting for a preliminary review of the application. At the Board meetings, generally held in July and October/November, Board members discussed the grant applications and provided opportunities for the Bank's executive director and representatives of the eligible trust fund recipients to address the Board on the pending applications. Subsequently, the Board deliberated and voted on whether to approve the grants based on the evaluation criteria and the Bank's available and estimated funding for the FY.

However, grants which the Board did not agree to fund were not necessarily rejected; but rather additional information was requested and the applications were held over for discussion at subsequent Board meetings or the following FY. For those grants approved, the Bank submitted a letter to the eligible trust fund recipient confirming the Board's approval, the approved amount, and the need for all due diligence to be completed and submitted to the Bank before funds were disbursed.

The Board recognized a need for prioritizing funding of approved grants which would close within a six-month period as a way of encouraging eligible trust fund recipients to complete the due diligence process in a timely manner. Beginning with the FY 2016-17 period, the approved grant recipient was placed in a six-month "priority-one" category for funding. This meant if the eligible trust fund recipient completed its due diligence within six months of Board approval, the Bank would make the request a priority in issuing the grant. After the six-month period, the requestor would be placed in the same pool of grant applicants approved from previous fiscal years and funding would be disbursed on a first-come, first-served basis as documentation was received and funds remained available. Unapproved grants were also carried forward into succeeding FYs until the applicant either withdrew or completed the application requirements.

Once the due diligence was completed, the applicant would send a letter requesting the Bank to proceed in its issuance of the check for the approved grant amount. The business office manager would then complete a hard copy check request form that required signatures of both the business office manager and executive director prior to processing the request through SCEIS. Once the check was received back to the Bank, the business office manager or intern would mail the check or contact the recipient to pick up the check from the office. Checks left in the office were secured in a locked drawer in the business office manager's office until picked up or mailed. The SIG determined the Bank management provided an appropriate level of oversight of the grant application, approval and disbursement process.

D. Year-End Grant Commitments

A review of 23 (49%) of the 47 grants issued in FYs 2017 and 2018 determined the average period of time for an eligible trust fund recipient to complete its due diligence following Board approval of the grant request was 8.2 months. Completion of due diligence included the land owner and eligible trust fund recipient working together to complete the formal appraisal, Phase I Environmental Site Assessment (ESA), Management Plan, Intent to Insure Title, and the signed and executed contract between the land owner and trust. The length of time required to complete these steps in the process varied for each project. Of the sample tested by the SIG, due diligence was completed from 3.8 to 13.4 months after approval was received from the Board. For those projects that remained incomplete at June 30th of the FY, the Bank carried them forward into the succeeding FY as "commitments" by the Bank.

According to Bank staff and the land trust personnel interviewed, the formal appraisal and ESA were typically costly portions of the project; therefore, land owners generally sought approval for funding prior to taking on those costs. With the average time it took for applicants to complete the due diligence process (8.2 months), it was inevitable for the Bank to have outstanding commitments at the end of the FY for grant applications received by January 31 and approved at a Spring Board meeting. At the close of FY 2017 (6/30/2017), the Bank had 14 outstanding commitments, totaling $6,923,978, which were carried over into FY 2018.

IV. Transfer of Funds to SC Department of Natural Resources

Beginning with FY 2017, the Bank was directed to transfer conservation funding to DNR through the proviso process for the State's matching funds of the Pittman-Robertson Wildlife Restoration Funds and North American Conservation Act programs. As set forth in Provisos 117.143 and 117.144, the Bank was directed to award grant funding in the amount of $2M and $1M, to DNR for these federal wildlife aid programs as the State's match upon receipt of an application for the funds which was consistent with the grant application process in §48-59-70. Initiated by DNR's letter of request dated 8/29/2016, the Bank issued the $3 million to DNR on 11/29/2016, following approval by the Board at its November 2016 meeting.

For FY 2018, this same process of providing $3 million to DNR was repeated for the Bank under Provisos 117.129 and 117.130. A review of the audio recording of the Board's 7/27/2017 meeting identified Board discussions of the Bank's obligation to fulfill the proviso requirements, in addition to funding prior year approved, but unfunded grants. There was concern expressed regarding the availability of funding due to the

Bank's receipt of $5M in Capital Reserve and the $5M in anticipated non-recurring supplemental funds, in contrast to the prior FY's appropriation process. While the Bank anticipated receiving the entire $10 million it was uncertain as to the timing in which the funds would be received. The Board directed the Bank to move forward in fulfilling the proviso requirements to DNR based on a funding plan to be discussed between the Bank's executive director and DNR's executive director for the transfer of the funds. Following the meeting, the Bank's executive director sent a letter dated 8/30/2017, to DNR which recounted the mutual understanding of transferring $1 million in September 2017 upon receipt of the Bank's initial $5 million in appropriations, and $2 million in December 2017, from the anticipated supplemental funding set aside in Proviso 118.14(B)(18).

The Bank received its initial $5 million in appropriations from the Capital Reserve in September 2017. By letter to the Bank, dated 9/18/2017, the DNR executive director requested the full $3 million in funding. Just prior to the DNR's September request, the Bank had provided grant funding to three land trusts totaling $2,548,910, which were held over from prior FYs. The $555,000 grant to the National Audubon Society for the fee simple interest in the Landco Project was carried forward from FY 2017 along with The Nature Conservancy's $2 million fee simple interest in the Gap Creek property, of which they had only received $1 million with the remaining amount to be received in a later fiscal year. In addition, the Lord Berkeley Conservation Trust received its second installment ($993,910) of the $3,581,730 request for its conservation easement interest in Oakland Club that was previously approved in FY 2016 for a three-year period of grant funding disbursement.

Consequently, the Bank did not have sufficient funding to fulfill the directives of Provisos 117.129 and 117.130. As a solution, the Bank requested a refund of funds issued to the Lord Berkeley Conservation Trust. The Lord Berkeley Conservation Trust agreed to delay closing of two tracts and refunded $675,970 in order for the Bank to transfer the full $3 million to DNR. The transfer of the $3 million to DNR occurred on 10/10/2017. To date, the Bank has yet to receive the $5M in supplemental funding pursuant to Proviso 118.14(B)(18).

V. Other Observations

While not central to the SIG's scope of review, the audit sampling of 23 (49%) of the 47 conservation grants funded in FYs 2017 and 2018 determined the amount and percentage of state appropriations utilized to acquire either fee simple or conservation easement interests which provided public access. These 23 grants accounted for $12,661,681 in conservation grants funded for these two FYs.

Public access is required by State law [§48-59-80(K)] for all "fee simple" grant approvals. Public access for conservation easements is determined through the provisions of each conservation easement, which can be either full, limited or no public access, and is determined through negotiations between the land owner and the eligible trust fund recipient and consistent with the terms of the easement (§48-59-100). State law [§48-59-70 (L)(2)] stipulates the Bank's Board *"shall authorize at least ten percent of the monies credited to the trust fund during the preceding fiscal year for the acquisition of interests in land that provides public access."*

For FYs 2017 and 2018, the SIG's audit sampling determined eight (35%) fee simple grants and one (4%) conservation easement grant provided **full** public access. These grants were funded in the amount of $4,585,750 and represented 36% of the $12,661,681 in funded grants. The SIG further determined six (26%) of the conservation easement grants provided **limited** public access and were funded in the amount of $2,497,681 (20%); while eight (35%) conservation easement grants provided **no** public access and were funded in the amount of $5,578,250 (44%) by the Bank.

VI. Conclusion

The Bank has operated for many years under a very basic premise: (1) create a budget for the FY; (2) pay its operational costs; and (3) issue grants to eligible trust fund recipients. The Bank, however, did not consider the need to formalize the process to ensure proper accounting practices, controls and budgeting processes were in place to provide for prioritization of grant funding, as well as implement safeguards to detect and deter against financial improprieties.

The SIG did not identify any fraudulent conduct or misappropriation of funds through its review of the Bank's operations for FYs 2017 and 2018. However, the previously identified internal accounting practices were not in compliance with established statewide policies and procedures, and unnecessarily elevated the risk of potential fraud. The Bank was deficient of basic functions such as:

- A procedures manual on the processing of receipts and disbursements;
- Segregation of duties in handling of cash and check receipts;
- Segregation of duties in handling disbursements for general operating expenses;
- Mitigating controls that were documented and practiced;
- Approval signatures on P-card statements; and
- Developing a detailed spending plan for annual appropriations

These were very basic expectations to have of any state agency and were required practices according to the state's MMO P-card Manual and SCEIS Segregation of Duties Policy, which the agency should have been familiar with. Another area of concern that was prompted by the Bank's initial inability to fulfill the FY 2018 proviso of transferring $3 million to DNR was the Bank's commitment to issue grants beyond the FY in which the grant was approved. The LAC reported in detail concerning this matter; however, the SIG also found the Bank could make improvements to its process in order to fund grants within each FY.

VII. Findings and Recommendations

Finding #1: The Bank did not have documented procedures for its receipt or disbursement of funds.

> **Recommendation #1:** The Bank should develop and maintain updated internal procedures governing its processing of cash and check receipts, as well as, its disbursement of funds for operating and grant expenditures.

Finding #2: The Bank did not adhere to the standard internal control of segregation of duties in its handling of receipts and disbursements.

> **Recommendation #2:** The Bank should review and adhere to the SCEIS Segregation of Duties Policy.

Finding #3: The Bank did not adhere to the Materials Management Office Purchasing Card Manual.

> **Recommendation #3:** The Bank should review and adhere to the MMO P-Card manual, as well as, withdraw the P-card from the temporary employee in accordance with the P-card Manual and an alternate method to pay bills should be determined.

<u>Finding #4</u>: The Bank did not have a method for following up with qualified entities following the issuance of grants to ensure funds were used or refunded as applicable within 60 days as required by the provisions of the grant application.

> **<u>Recommendation #4</u>:** The Bank should incorporate a step in its grant funding process to ensure grant funding is utilized within the 60-day period or refunded in accordance with application requirements.

<u>Finding #5</u>: Grants approved with current year funds were carried forward as commitments to issue grants in future fiscal years without the guarantee of funding being available.

> **<u>Recommendation #5a</u>:** The Bank should review and adjust its timeline for the approval of grants so that grants can be funded in the FY in which they are approved.

> **<u>Recommendation #5b</u>:** The Bank should require applicants to re-apply if an approved grant is not completed in the FY in which it is approved.

<u>Finding #6</u>: The Bank did not prioritize the General Assembly's conservation funding in Provisos 117.129 and 117.130 above prior FY approved grants; and therefore risked not having the available funds to execute the provisions of these provisos.

> **<u>Recommendation #6a</u>:** For future budget planning, the Bank should ensure General Assembly-directed conservation funding is prioritized and set aside through its annual appropriations prior to funding other grants.

> **<u>Recommendation #6b</u>:** The Bank should develop and adhere to a detailed spending plan for annual appropriations to allow for the efficient administration of the Bank.