

**SOUTH CAROLINA
DEPARTMENT OF AGRICULTURE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2004

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 7, 2005

The Honorable Hugh E. Weathers, Commissioner
South Carolina Department of Agriculture
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Commissioner and management of the South Carolina Department of Agriculture (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2004, in the areas addressed. The Department'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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over licenses and other documents issued for money.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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, were bona fide disbursements of the Department, 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 internal controls over these transactions were adequate.
- 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 recorded payroll expenditures to those of the prior year and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries and Operating Transfers**

- We inspected randomly selected recorded journal entries and all operating transfers between subfunds 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 to detect errors and/or irregularities.

Our finding as a result of these procedures is presented in Accounting Transactions in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected 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 selected transactions were adequate to detect errors and/or irregularities.

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 Department for the year ended June 30, 2004, and inspected 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 determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department'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 Department's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. We found no exceptions as a result of the procedures.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties 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 2004.

Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2004 prepared by the Department 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.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004 prepared by the Department 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.

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 areas, 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, the Commissioner, and of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency 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 entity 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 does 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 material weaknesses or violations of State Laws, Rules or Regulations.

PAYROLL

Pay Schedule

The Department of Agriculture (Department) did not adhere to the State's "regular and permanent schedule for payment of employees" for specified twice-monthly payroll work periods when paying some employees. We tested personnel/payroll transactions and controls for 25 employees each in a termination test and a new hire test. For 13 and 10 payments, respectively, the employees were paid on the wrong State pay date but in accordance with the Department's alternate schedule which was internally developed to pay hourly employees. The Department pays all employees on the State's established pay dates but corresponding payroll periods differ for certain of the Department's employee classes from those on the State's permanent schedule. For the affected employees, the payroll period follows the Department's alternate payroll period schedule, based on weekly time sheets.

Section 8-11-35 of the 1976 South Carolina Code of Laws, as amended, provides for a regular and permanent schedule for payment of employees beginning with the first fiscal year 2003 pay period of June 2 through June 16 of the prior year to be paid on July 1 and continuing on a twice-monthly schedule thereafter. The section also authorizes the Budget and Control Board "to approve any changes to this schedule where circumstances are deemed justifiable." The Department could not provide us with documentation of the Budget and Control Board's approval for its alternate schedule.

We recommend the Department revise its procedures to ensure that it pays all employees in accordance with the State's established payroll period/paydate schedule until and unless the State Budget and Control Board authorizes an alternate schedule for certain Department employee categories.

Employee Profiles

For one out of 25 payroll transactions tested during our standard test of payroll, we noted that base hours were not accurately reflected on the employee profile. Also, for eight out of 25 payroll transactions tested during our test of terminated employees, the employee profile did not properly reflect all changes to gross salary for the fiscal year.

The employee profile is used to reflect and maintain position and employee information. Therefore, it is critical that all form information be accurate and updated timely.

We recommend that the Department evaluate its current system for updating the employee profile and establish procedures to ensure timely posting of changes in employee salaries.

New Hire and Termination Dates

For this engagement, we requested separate lists of all employees who started and all who terminated employment with the agency in fiscal year 2004. During our testing of terminated employees, we noted that the termination dates provided by the payroll and personnel departments for 19 of 25 employees did not agree to the termination dates per the listing. We also noted eight instances in which the last day worked according to the employees' timesheets did not agree to the termination dates provided by payroll or personnel. Further, for three out of 25 transactions tested during our test of new hires, we noted the employee worked prior to being added to the payroll system.

According to Department personnel, the payroll department records the termination date as the pay date for the pay period in which the termination occurred. The personnel department records the termination date as the actual date of termination from the Department. For certain hourly employees, last day worked per the employees' timesheets is not the actual termination date recorded by the personnel department due to the Farmers' Markets not notifying the personnel department of a termination until it is certain the employee

will not be returning. There also appears to be a lack of communication between the payroll staff, personnel staff, and Farmers' Markets staff. Therefore, we were unable to accurately determine the termination date for some employees. Regarding the new hire dates, these employees attended a training prior to the hire date recorded by the payroll department. However, their Personnel Action Forms stated the employees' hire dates were the same date as the training.

An effective system of internal controls includes control procedures to ensure that the entity prepares and maintains proper and adequate documentation in its employee files to support all personnel and payroll actions. In addition, controls should be in place to ensure that transactions are properly and timely processed to detect and correct errors and inconsistencies in a timely manner.

We recommend that the Department develop and implement procedures to ensure that information regarding employees is maintained accurately by both personnel and payroll. We also recommend the Department implement procedures to ensure the accuracy and reasonableness of information received from the Farmers Markets.

Employee Pay Status

For one out of 25 payroll transactions tested during our standard test of payroll, we noted the Department paid a fulltime employee as an hourly employee. The employee was originally hired by the Department as an hourly employee; however, in 1988 the employee was reclassified as a fulltime employee. After this reclassification, the Department continued to pay the employee on an hourly basis. The Department discovered this error in March 2004 and attempted to correct it; however, in April 2004, reverted back to paying the employee on an hourly basis due to concerns of over/underpaying the employee according to the Department's

alternate pay schedule. In January 2005, the Department began paying the employee correctly as a full-time employee. We were unable to determine the amount if any that the employee may have been over or underpaid.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, stipulates that it is unlawful for anyone to receive a salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due.

We recommend that the Department develop and implement policies and procedures to ensure that employees are properly classified and paid based on their classification.

SECTION B – OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules or Regulations.

ACCOUNTING TRANSACTIONS

During our testing of the Department's operating transfers between subfunds, we noted several instances in which the Department misclassified short-term interfund loans as operating transfers. The transfers were to move cash between the Columbia Farmers' Market, the Pee Dee Farmers' Market, and the Fruits and Vegetables Grading and Inspection accounts. In essence, the transfers were to borrow money from one account and loan it to another account within the agency. As a result of these transfers, the Pee Dee Farmer's Market still owed the Columbia Farmers' Market \$34,746.40 at the end of fiscal year 2004.

According to finance personnel, the Department did not want to transfer funds in the form of a short-term interfund loan because the Department was unsure it would be able to pay back the loan in a timely manner. Therefore, transactions were not properly accounted for and were not reported to the Comptroller General's Office as required by the GAAP Closing Procedures Manual and the Comptroller General's Policies and Procedures (STARS) manual.

The Comptroller General's Policies and Procedures (STARS) manual states that transaction code 356 should be used to set up the loan in the lending subfund and code 306 for the borrowing subfund. For repayment of the loan, the transaction code 357 should be used for the borrowing subfund and code 307 for the lending subfund. "A monthly report of the status of short-term interfund loans (report CSA 486, Short-Term Intra-Agency Loans) is produced and distributed to the affected agency, the Budget and Control Board's Division of Budget and Analyses, and the Central State Accounting and Central State Financial Reporting Divisions of the Comptroller General's Office and the Division of Budget and Analyses continually monitor the outstanding balances of short-term interfund loans."

In addition, the GAAP Closing Procedures Manual states, in part, that agencies must complete the Interfund Payables Closing Package if their agency “owes...other GAAP fund codes within [their] agency at the end of the fiscal year.”

We recommend the Department properly classify transfers used for the purposes of loaning funds to other subfunds as short-term interfund loans and accurately report information regarding these loans to the Comptroller General.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department of Agriculture for the fiscal year ended June 30, 2002, and dated January 24, 2003. We determined that the Department has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Payroll Schedule – This department has had a payment schedule for our part time employees in place for many years in order to ensure proper overtime payment. Since employees are not due overtime unless 40 hours are worked in a week, part-time employees are required to submit time sheets for full weeks in order to verify hours. At no time during our payroll personnel's tenure has this been an audit exception although each past auditor has been aware of this payroll schedule. Additionally, at no time during any past audit has it been mentioned that approval by the Budget and Control Board is required. However, this department will take proper steps to obtain approval by the Budget and Control Board to continue using a separate payroll for part-time employees only.

Employee Profiles – With the addition of our new Human Resource Manager, a new system is in place to ensure (hiring, termination, pay increases, etc.) is recorded on a Position Action Form. This form will be initiated by our new Human Resource Manager and an addition staff person and forwarded to our Human Resource specialist who will make whatever changes are necessary and a copy will be given to our payroll office.

New Hire and Termination Dates – The termination and hire dates have historically been keyed into the payroll system as the date the payroll becomes effective (i.e., the 2nd and 17th of each month). Although the dates are keyed differently from actual dates, it in no way affects any employee's pay. Before paying any employee for the first or last time, payroll verifies all dates with the personnel office to ensure proper payment, or in the case of part-time employees pays strictly by time sheets. All paperwork regarding new hires and termination in payroll files matches with paperwork in personnel files. However, for the purpose of this audit and to avoid confusion in future audits, the practice of keying dates rather than actual dates has been changed. The payroll office now keys the specific terminate and hire dates into each employee's payroll records.

Employee pay Status – This error was originally discovered during an internal check of each payroll record in 2003 (not 2004 as stated in the audit report). Due to the fact there were concerns about changing this employee's pay procedure in the middle of a year (which could have resulted in her being under or overpaid), it was corrected in January of 2004 (not 2005 as stated in the audit). Additionally, after the department's internal audit, it was determined that this employee was not over or under paid at any time. Since this has been a lone exception of this nature, we feel that policies and procedures are in place to ensure proper payment.

Accounting Transactions – This department has always used the correct transaction codes for loans, however because of past administration we were told not to report a specific Appropriation transfer between the Columbia State Farmers Market and the Fruits and Vegetables Grading and Inspection as a loan. We do recognize that error and will report all other loans with the proper transaction codes.

However, we do not consider the Appropriation transfers from the Columbia State Farmers Market to the Pee Dee Farmers Market and the Greenville Market as loans. We consider them as one entity even though they are reported with different accounting

codes. The Columbia State Farmers Market has to help the other two farmers markets with pending expenditures. These transfers are not loans, because the two farmers markets will not and cannot pay back any monies back to the Columbia State Farmers Market.

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