

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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

April 9, 2007

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, 2006, 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 in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$2,300 – general fund, \$58,700 – earmarked fund, \$83 – federal fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Object Codes in the Accountant's Comments section of this report.

## 2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the 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.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$38,400 – general fund, \$42,500 – earmarked fund, and \$1,000 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Transfers of Personal Services Expenditures Between Subfunds and Travel Advances in the Accountant's Comments section of this report.

## 3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$38,400 – general fund, \$42,500 – earmarked fund, and \$1,000 – federal fund) and  $\pm 10$  percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries, all operating transfers, and all appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected for our test of journal entries were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, 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 accounts reconciled. 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 reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the 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, and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of 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, 2004, to determine if the Agency had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2005.

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

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the Commissioner and management of the South Carolina Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.



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

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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

## **TRAVEL ADVANCES**

During our review of travel advances, we noted the Department was not in compliance with the Comptroller General's STARS Manual regulations. For two of the three travel advances requested, the Department did not submit requests for these travel advances to the Comptroller General's Office at least seven business days prior to the start of the travel as required by the STARS Manual Section 2.1.3.100. Both advance requests were prepared four business days prior to the trip.

Department personnel believe that these errors were due to lack of knowledge of the applicable regulations for travel advances and lack of oversight in ensuring that all travel advances were made in compliance with State law.

We recommend the Department establish and implement internal controls over travel advances to ensure that all advances are requested in conformance with regulations set forth in the STARS Manual. Further, the Department should ensure employees are knowledgeable of the applicable regulations and State laws regarding travel advances to ensure proper compliance.

## **TRANSFERS OF PERSONAL SERVICES EXPENDITURES BETWEEN SUBFUNDS**

We compared fiscal year 2006 expenditures recorded in STARS to those of the prior year. During our review, we noted the Department transferred \$103,150 of personal services expenditures from the Market Bulletin program (subfund 3372) to Administration (subfund 1001) during fiscal month 13 of fiscal year 2006. According to employee profiles of the affected employees, their salary should have been funded by earmarked funds. We found no documentation changing the fund source from the Market Bulletin program to Administration.

Department personnel said the transfer was made because the Administration subfund had surplus funds at fiscal year end. They did not consider it efficient to change the fund source for the affected employees.

According to the fiscal year 2006 Appropriation Act, the Market Bulletin program was only allowed to fund FTE's with Market Bulletin funds. There was no appropriation of general fund monies to fund salaries for these employees.

We recommend the Department implement procedures to ensure any change to an employee's salary fund source is properly approved and documented in the employee's personnel file. Also, FTE's should be properly funded in accordance with the state budget as authorized in the Appropriation Act. Finally, we recommend that the Department reimburse the State General Fund from the Market Bulletin program.

## **PAYROLL**

### **Pay Schedule**

The 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. In the test of termination of employment and test of new hires we tested personnel/payroll transactions and controls for 25 employees each. We found 11 employees from the test of terminations and 13 employees from the test of new hires that were paid on the wrong State paydate but in accordance with the Department's alternate pay schedule which was internally developed to pay hourly employees. The Department pays all employees on the State's established paydates 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 schedule, based on weekly timesheets. A similar finding was noted in our fiscal year 2004 report.

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 2005 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 considered justifiable.” Again, the Department could not provide us with documentation of the Budget and Control Board’s approval for its alternate schedule.

We again 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 the State Budget and Control Board authorizes an alternate schedule for certain Department employee categories.

### **Employee Profiles**

For two out of 25 payroll transactions tested during our test of payroll, we noted the correct fund source was not accurately reflected on the employee profile.

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.

### **Termination and New Hire Dates**

We requested separate lists of all employees who started and all who terminated employment with the Department during fiscal year 2006. During our test of employees who terminated employment, we noted the termination date on the termination listing generated by the Human Resource Information System (HRIS) did not agree to supporting documentation in the employee’s payroll or personnel file or to the employee’s timesheets for 16 out of 25

employees tested. During our test of new hires, we noted the date the employee was added to the payroll on the new hire listing prepared by the Department did not agree to supporting documentation in the employee's payroll or personnel file for 9 out of 25 employees tested. We also noted that certain temporary employees who terminated during the fiscal year and were later rehired by the Department were not included on the new hire listing. Similar findings were noted in our fiscal year 2004 report.

According to Department personnel, for certain hourly employees, the last day worked on the employee's timesheet is not always the actual termination date recorded by the personnel department because the Farmers' Markets do not notify the Personnel Department of a termination in a timely manner. Other termination dates were inaccurate due to keying errors by Department personnel. With respect to dates reported on the new hire listing, we were told by Department personnel no such listing could be generated from HRIS so one was manually created by the Personnel Department, which increased the potential for discrepancies and errors.

An effective system of internal controls includes control procedures to ensure information is maintained accurately. In addition, controls should be in place to ensure that transactions are properly input and timely processed.

We recommend that the Department develop and implement procedures to ensure that information regarding employees is maintained accurately by the Personnel Department. We also recommend personnel review reports generated for audit or other purposes prior to delivering them to the requesting authority to ensure that information contained therein is complete and accurate. We further recommend the Department implement procedures to ensure the accuracy and reasonableness of information received from the Farmers' Markets.

## **CLOSING PACKAGES**

### **Litigation**

During our testing of the litigation closing package, we noted the Department paid two private attorneys for legal services rendered during fiscal year 2006. According to the South Carolina Attorney General's Office Request for Authorization to Employ Associate Counsel, the Department was authorized to pay \$100 an hour for these services; however, the Department paid one of the firms \$110 per hour and the other \$125 per hour. Department personnel stated they did not realize they needed to request another authorization subsequent to original approval obtained. Further, Department personnel did not review the authorization while approving invoices for payment.

Proviso 32.2 of the fiscal year 2006 Appropriation Act states, "No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him."

### **Compensated Absences**

During our fiscal year 2006 review of the compensated absences closing package, we noted for two of fifteen employees tested that the accrued annual leave balances reported on the Annual Leave Liability Report through June 2006 did not agree to the hours reported on the employees' Leave Statement. We were unable to determine which of the reports was correct and therefore were unable to determine if annual leave liability was incorrectly reported.

Department personnel stated they did not compare these two reports before completing the closing package due to oversight in the preparation of this closing package.

Good internal controls require that adequate supporting documentation be prepared and retained and financial and related information be properly recorded and summarized in the accounting and other agency records. In addition, the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) Section 3.17 includes instructions that require the retention of working papers supporting all information reported on the closing package.

### **Capital Assets**

During our testing of the capital assets closing package we noted the Department understated current year depreciation expense and accumulated depreciation by \$4,835.

According to Department personnel, these errors were due to human error and oversight during the review process. The spreadsheet used to support amounts reported on the closing package contained a formula error and was not properly checked to ensure its accuracy.

Sections 3.8 through 3.11 of the GAAP Manual provide guidance for agencies reporting capital assets transactions and balances in closing packages. In addition, good internal controls require that the Department have a qualified preparer and reviewer independent of the preparer review closing packages prior to the submission to the Comptroller General's Office to ensure accuracy of the information submitted.

### **Miscellaneous Revenue**

During our review of the miscellaneous revenue closing package, we noted the Department overstated accounts receivable for GAAP fund code 1001 by \$3,413. The Department reported accounts receivables for Stop Order Penalty Revenue recorded in object 5705, which is a 0550 GAAP revenue code; however, according to Section 3.4 of the GAAP Manual, the only receivables that are required to be reported on this closing package are for GAAP revenue code 0200 revenues.

Department personnel stated they were not aware that the GAAP Manual requirements had changed and prepared the closing package based on a review of the prior year's closing package.

### **Recommendations**

We recommend the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with GAAP Manual instructions. Further, the Department should ensure that persons preparing and reviewing closing packages are knowledgeable of the GAAP Closing Package Manual instructions. In addition, we recommend the Department develop and implement policies and procedures to ensure that it obtains approval from the South Carolina Attorney General's Office prior to engaging an attorney on a fee basis, including obtaining approval for increased fees.

### **REVENUE OBJECT CODES**

During our Test of Cash Receipts and Revenue and our Cut-off Test of Revenue we noted two out of 50 receipts (4%) tested were charged to the incorrect object code. The two receipts noted were for private sector calibrations service rendered by the Department which should have been posted to object code 4803 (private sector calibrations). During our review of the Comptroller General's CSA 406 report – Statement of Estimated and Actual Revenue for fiscal year 2006, there were no revenues posted to object code 4803; therefore, it appears the object code is not being used properly. According to Department personnel, this was due to human error.

Sound internal controls require that revenue be properly classified on the Department's books of account.

We recommend the Department establish and implement policies and procedures to ensure all revenue received is properly classified and recorded in its accounting system.

## **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 the Department for the fiscal year ended June 30, 2004, and dated September 7, 2005 (We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2005). We determined that the Department has taken adequate corrective action on each of the findings except for the Accountant's Comments regarding *Payroll*. The continuing deficiencies are described in *Payroll* in Section A of the Accountant's Comments in this report.

**MANAGEMENT'S RESPONSE**

**Travel Advances** – We have read and understand the rules and regulations concerning travel advances. No travel advance will be processed if received less than 7 business days prior to the start of travel, unless specifically requested by the Commissioner of Agriculture. As a follow up to this finding, we spoke with representatives from the Comptroller General's Office and were informed that as far as they were concerned, even Travel Advances received within 4 days of a trip is acceptable.

**Transfers of Personal Services Expenditures Between Subfunds** – The agency will manage its budget to the best of our ability, meeting our mission and goals while balancing our budget to avoid these exceptions.

**Payroll Schedule** – The department, beginning with the first paycheck to be received July 1, 2007, has adjusted its procedures for paying employees. All employees, regardless of classification, will be paid on the state's payroll schedule of 2<sup>nd</sup> – 16<sup>th</sup> and 17<sup>th</sup> – 1<sup>st</sup> of each month. After last year's audit finding, payroll personnel spoke with staff at the Budget & Control Board, Office of Human Resources and were told that no approval was necessary for this schedule. However, after speaking with them during this last audit, they admitted that they had misunderstood last year and that approval is, indeed, necessary. This finding would have been corrected prior to this audit otherwise.

**Employee Profiles** – The Human Resource Offices uses information provided from the Finance Division to assign the correct source of funding. In order to ensure information is accurate, a list will be provided to the Finance Section periodically (every three months) showing each employee's source of funds.

**Termination and New Hire Dates** – Position Action Forms have been updated to show beginning and ending payroll dates as well as actual day employee began work or was terminated. This information will enable Human Resources to enter exact data into the OHR system. The Human Resource Office will begin generating a comprehensive list of new hire information. We will provide this list to the Payroll Section for cross-checking purposes.

**Litigation** – The Department of Agriculture has reiterated to our Department Attorney that approval must be received from the Attorney General's Office for any private attorneys used for legal services. The Finance Office must verify that the hourly rate approved by the Attorney General's Office is the rate paid, unless a new approval is received from the Attorney General's Office prior to payment. This procedure will be followed in the future.

**Compensated Absenses** – Two reports are used to compile the Leave Closing Package. One is generated from OHR and the other is requested by the Department's Human Resources Office. Prior to this year, no thorough explanation was given by the auditors as to exactly what was involved in checking and cross-checking these reports. The report generated by the Department will be requested after the beginning of the new fiscal year (July 15, 2007). This report will be compared to the report furnished by OHR. Discrepancies will be investigated in order to ensure accurate information is furnished on the Closing Package.

**Capital Assets** – This Capital Assets Inventory spreadsheet for items valued at over \$5,000 was incorrect. We have over 200 lines of capital assets listed and only one formula was found incorrect in our spreadsheet. We have corrected this formula for 2006-2007 and this adjustment has been made on the GAAP Capital Assets Package. The reviewer will review all spreadsheets to verify that all formulas are correct to avoid this error in the future. We understand that under SCEIS, the spreadsheet will no longer be used and the new SAP program will take care of this problem.

**Miscellaneous Revenue** – The department was unaware that this procedure had changed. The closing package was prepared in accordance with previous packages. Personnel will be aware of all procedures and will review those before preparing this package in the future.

**Revenue Object Codes** – Due to computer error, the Revenue Object Codes were changed from correct coding. When we initially started collecting revenue for Private Sector Calibrations, the Revenue Object Code was correct. At some point, it was inadvertently changed in the computer system. This error has been corrected for all deposits to Private Sector Calibrations for the fiscal year 2006-2007 and steps have been taken by our IT Department to correct the computer program. The department is compiling a list of all Revenue Object Codes relevant to the agency. Finance personnel will periodically review object codes being used to ensure revenue is being recorded correctly.

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