

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

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 8, 2008

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, 2007, 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 (\$800 - general fund, \$58,700 – earmarked fund, and \$3,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Timeliness of Deposit 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 (\$39,900 – general fund, \$60,600 – earmarked fund, and \$2,400 - federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings noted as a result of these procedures are presented in Travel Reimbursement and Litigation Expenditures in the Accountant's Comments section in 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 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 (\$39,900 – general fund, \$60,600 – earmarked fund, and \$2,400 – federal fund) and ± 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 ± 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 between subfunds, and all interagency 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 journal entry transactions selected 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 Commission 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, 2007, and inspected selected reconciliations of balances in the Comptroller General'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, 2007, 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, 2007, 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 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, 2006, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Section C 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.

CLOSING PACKAGES

Compensated Absences

During our review of the fiscal year 2007 compensated absences closing package, we noted the annual leave liability for one of the 15 employees tested was reported under the wrong GAAP fund code. The Department reported the liability in the governmental fund instead of in the enterprise fund. This resulted in a misstatement of \$1,960 in both funds. In addition, the Department reported 134 FTE's accruing leave on the compensated absences summary form as of June 30, 2007 instead of 132 which were listed on the Department's annual leave liability report.

According to Department personnel, these errors were due to human error and oversight during the review process.

The Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) Section 3.17 includes instructions regarding the proper preparation of the closing package.

Operating Lease – Lessor

The Department incorrectly reported accumulated depreciation and the carrying amount of the property on the operating lease – lessor closing package. The Department reported accumulated depreciation of \$2,326,135 and property carrying value of \$5,335,258. The reported amounts were transposed.

Department personnel stated this was due to human error and that they had misunderstood the GAAP Manual instructions.

GAAP Manual Section 3.20 includes instructions regarding the proper preparation of the closing package. In addition, good internal controls require that the Department have a qualified preparer and reviewer independent of the preparer review closing packages prior to submission to the Comptroller General's Office to ensure accuracy of the information submitted.

Recommendation

We recommend the Department implement procedures to ensure that closing packages are accurate and complete, and that information be completed in accordance with GAAP manual instructions. Further, the Department should ensure that persons preparing and reviewing closing packages are knowledgeable of the GAAP Manual instructions.

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 that 20 employees from the test of terminations and 21 employees from the test of new hires were paid on the wrong State payday but in accordance with the Department's alternate pay schedule which was internally developed to pay hourly employees. The Department has not obtained authorization to use the alternate pay schedule. A similar finding was noted in our fiscal year 2006 and 2004 reports.

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 2006 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."

Department personnel stated that instead of obtaining approval for its alternate pay schedule that it would begin paying all hourly employees in accordance with State law beginning in fiscal year 2008.

We recommend the Department ensure that it pays all employees in accordance with the State's established payroll period/paydate schedule.

Termination and New Hire Dates

The Department prepares a list that identifies employees who terminated employment and those who were hired during the year. The list identifies when the employee terminated employment or was hired. We noted the termination date on the listing did not agree to supporting documentation in the employee's payroll or personnel file or to the employee's timesheets for three out of 25 employees tested. We also noted the date the employee was added to the payroll on the new hire listing did not agree to supporting documentation in the employee's payroll or personnel file or to the employee's timesheet for one out of 25 employees tested. A similar finding was noted in our fiscal year 2006 report.

In addition, 13 hourly paid employees were not removed from the payroll system in a timely manner. The Department removed the employees three weeks to three months after the last day worked. Two of these employees were not paid in a timely manner because their timesheets were not submitted timely. Both were paid two months after the last day worked and one month after their termination date.

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 always notify the personnel department when a termination has occurred. Also, the farmers' markets may not always submit timesheets in a timely manner; therefore, employees may not be paid timely. The

Department's written policy specifies when timesheets are due. The other termination and hire dates were inaccurate due to errors by department personnel in preparing the lists.

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 accurately maintained by the personnel department. We further recommend that the Department implement procedures to ensure the accuracy, reasonableness and timeliness of information received from the farmers' markets.

Termination Pay

We determined the Department overpaid an employee \$6 when calculating their final pay. According to the employee's timesheet, the employee worked 26.65 hours during the pay period; however, the employee was paid for 27.35 hours worked. Department personnel stated this was due to oversight during the review of the timesheet.

A well-designed and an effective internal control system includes independent reviews of payroll calculations and verification of support documentation used in those calculations. In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive a salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due.

We recommend the Department develop and implement procedures to ensure that payments to employees are calculated correctly. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to source documentation.

TIMELINESS OF DEPOSIT

One out of twenty-five receipts tested in our test of cash receipts did not document the date of receipt; therefore, we were unable to determine if the receipt was deposited timely in accordance with Section 72.1 of the fiscal year 2006-2007 Appropriation Act. Section 72.1 requires that all revenues be deposited at least once each week when practicable.

Because cash is the asset which is most vulnerable to loss, adequate internal control procedures require the Department to initiate accounting control over monies immediately upon collection and to timely deposit receipts.

We recommend the Department strengthen its procedures to ensure that each cash receipt/deposit transaction documents the date of receipt.

TRAVEL REIMBURSEMENT

We noted a Department employee claimed mileage for miles not driven while on official State business and was overpaid \$19. Travel voucher 2649 documented that the employee requested reimbursement for 84 miles but should only have received reimbursement for 42 miles.

Department personnel stated they did not realize all miles claimed on the employee's travel voucher were not reimbursable.

State travel regulations stipulate that only actual miles driven on official State business will be reimbursed.

We recommend that the Department ensure that personnel responsible for approving travel vouchers be familiar with State law regarding travel regulations and perform careful reviews of the vouchers before reimbursing employees.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

LITIGATION EXPENDITURES

We noted the Department paid \$643 for copying services relating to a legal case the Department was involved in; however, the invoice from the vendor listed the law firm hired by the Department as the payee and not the Department. In addition, the Department charged the voucher to object code 0303 (copying equipment supplies); therefore, the expenditures were not included in the cumulative litigation expenditure amount authorized to be paid to the law firm.

Department personnel stated that they were asked by the law firm to pay the invoice directly instead of being billed by the firm.

Effective internal controls include procurement policies to ensure the expenditure is a bona fide disbursement of the Department paid in conformance with State laws and regulations and that the expenditure is properly classified and recorded in the accounting records.

We recommend the Department strengthen its procurement policies to ensure invoices are properly paid and are for bona fide disbursements of the Department. The Department should also ensure that expenditures are properly classified and recorded in the accounting records.

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 for the fiscal year ended June 30, 2006, and dated April 9, 2007. We determined that the Department has taken adequate corrective action on the findings regarding Travel Advances, Transfers of Personal Services Expenditures Between Subfunds, and Revenue Object Codes. We determined the other deficiencies described in our prior report still exist; consequently we have repeated similar findings regarding Payroll and Closing Packages in Section A therein.

MANAGEMENT'S RESPONSE

COMPENSATED ABSENCES:

These errors were due to human error and oversight during the review process. We will ensure that personnel preparing and reviewing the Compensated Absences Package are knowledgeable of the GAAP manual instructions.

OPERATING LEASE – LESSOR

Same error was made on the closing package for fiscal year 2005-2006 and was also missed by the State Auditors Office. When preparing this closing package for 2006-2007, since no finding was noted during the audit for fiscal year 2006, this error was repeated on the assumption that the lack of a finding during the prior fiscal year was correct. This will be noted and corrected on the closing package prepared for fiscal year 2007-2008.

PAY SCHEDULE

The State's "regular and permanent schedule for payment of employees" has been implemented for the current fiscal year. It was started on the first payday, July 1, for this fiscal year.

TERMINATION AND NEW HIRE DATES

Hire dates and terminate dates are submitted to the Office of Human Resources by supervisors when hiring and terminating employees. When time sheets are involved with part-time employees, at times, the first day worked or last day worked does not necessarily coincide with the dates submitted for hire or termination by supervisors. Additionally, at times, supervisors will not terminate part-time employees immediately due to the possibility of needing them again before the specific project they are working on is done. During fiscal year 2007-2008, we have tried to take steps to ensure the accuracy of these dates by stressing to supervisors the importance of notifying HR immediately with actual hire and termination dates.

TERMINATION PAY

This particular finding was due to an error in calculating hours on time cards. This employee was a part-time peanut inspector. An average of 80 part-time peanut inspectors are hired for two months. Due to the volume of inspectors hired during this time, the time cards are sent to the Fruit & Vegetable Office where the time is calculated and submitted to payroll in total per employee. This time was miscalculated by the Fruit & Vegetable Office. Payroll paid what was submitted. Since the Payroll Office does not receive actual copies of the time cards, there was no reason to suspect that the incorrect hours to pay were submitted.

TIMELINESS OF DEPOSIT

This particular form/receipt was date stamped per department policy. Upon completion of a deposit, the original form with the date stamp was sent to the Laboratory for filing. The copy they kept was a copy that had been made before the document was date stamped, therefore, we were unable to provide a copy that had the appropriate documentation. SCDA stresses the importance of

making deposits in a timely manner — all deposits are processed and taken to the bank within 5 business days of receiving a check. We feel that with the implementation of SCEIS and the ability to scan all documents into the computer to attach to a particular deposit, we will no longer have to rely on department divisions to retain proper documentation for finance/audit purposes.

TRAVEL REIMBURSEMENT

When this particular travel voucher was submitted, SCDA was unaware that mileage on this document included miles driven by his wife from the airport to his home due to the fact that they did not want to leave a vehicle at the airport. We have stressed that this is not to be allowed in the future.

LITIGATION EXPENDITURES

This error also made it through the Comptroller General's Office audit process when the voucher was submitted. We have stressed the importance of verifying that no invoices are to be paid unless the invoice is specifically addressed to the Department.

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