
South Carolina Department of Agriculture

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon
Procedures for the year ended June 30, 2010

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 2, 2011

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

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Agriculture for the fiscal year ended June 30, 2010, was issued by Brown CPA, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/trb

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of State Auditor and management of 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, 2010, in the areas addressed. The Department 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 Department'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 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, restricted and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$7,400 – general fund, \$240,000 – earmarked fund, \$33,000 – restricted fund, and \$360,000 – federal fund and \pm 10 percent.

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 in accordance with the Department'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 current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$400,000 – general fund, \$180,000 – earmarked fund, \$18,000 – restricted fund, and \$370,000 – federal fund and \pm 10 percent.

The individual transactions selected were chosen systematically. 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 processed in accordance with the Department'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 Department'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 current year recorded payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$400,000 – general fund, \$180,000 – earmarked fund, \$18,000 – restricted fund, and \$370,000 – 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 15 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

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

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, 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 Department's policies and procedures and State regulations.

The individual 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 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 Department's policies and procedures and State regulations.

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

6. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

7. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010 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 the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- **Schedule of Federal Financial Assistance** We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, 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.

9. SCEIS Implementation

- We compared cash, revenue and expenditure account closing balances from the Department's legacy system to opening balances input into SCEIS when the Department made the conversion to SCEIS April 1, 2008, to ensure that the Department carried forward the proper account balances to SCEIS.

We found no exceptions as a result of the procedures.

10. Status of Prior Findings

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from their engagement for the fiscal year ended June 30, 2007, to determine if adequate corrective action has been taken. We applied no procedures to the Departments accounting records and internal controls for the years ended June 30, 2008 and 2009.

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 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 South Carolina Office of the State Auditor, and the Commissioner and management of the Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South Carolina
May 24, 2011

Accountant's Comments

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.

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

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

Capital Assets Closing Package – Outstanding Construction Commitments

During the testing of the Office of Comptroller General *Capital Assets Overview Questionnaire* it was observed that the Department did not indicate any outstanding construction commitments as of year-end. Based upon testing in other areas and information publically available, it was noted that the Department is in the process of constructing a State Farmers Market in the Lexington, SC area. Construction is anticipated to be completed sometime around August 2011, as such; at June 30, 2010 the Department had outstanding construction commitments related to the Lexington, SC Farmers Market at year-end.

Recommendation

GAAP Manual Section 3.8 includes instructions regarding the proper preparation of the closing package. 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.

Accounts Payable Closing Package – Retainage Payable and Construction Payable

It was noted that the Department did not list as a payable amounts due at year end for ongoing construction of \$484,778 at the Lexington State Farmers Market and the associated related retainage payable of \$214,693.

Recommendation

GAAP Manual Section 3.12 includes instructions regarding the proper preparation of the closing package. 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.

Operating Lease – Lessor Closing Package – Future Minimum Lease Payments to Be Received

The Department operates three State Farmers Markets and leases space at those markets to numerous tenants under varying lease terms. During the testing of the Office of Comptroller General *Operating*

Lease Lessor Summary Form Closing Package it was observed that the Closing Package did not indicate any amounts for future rental payments to be received. Upon further inquiry it was learned that most leases are for a term of one year or less, however at least one agreement is in place at the Greenville State Farmers Market whereby the Department has agreed to a 30 year lease term ending in March 2023 providing for monthly rental of \$2,800. Department personnel stated that they were previously unaware of any long-term lease agreements.

Recommendation

GAAP Manual Section 3.20 includes instructions regarding the proper preparation of the closing package. 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.

SECTION B - OTHER WEAKNESSES

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

Accounts Receivable Summary Form Closing Package

During the testing of the *Accounts Receivable Summary Form Closing Package* it was observed that an amount was improperly reported by \$10,000. The amount shown for Gross Accounts Receivable was reported at \$43,753 and should have been reported as \$53,753. This mistake appears to be a result of human error in transferring the amount from a supporting schedule to the Closing Package.

Recommendation

We recommend the Department implement procedures to ensure that closing packages are accurate and complete. The Department should ensure that there is an adequate preparation and review process in place so that closing packages are accurately prepared.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of correction action taken on the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Agriculture for the fiscal year ended June 30, 2007, and dated April 8, 2008. (We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2008 and 2009.) We determined that the Department has taken adequate corrective action on each of the Accountant's Comments described in the State Auditor's Report on the South Carolina Department of Agriculture for the fiscal year ended June 30, 2007.

Attachment A



Hugh E. Weathers, Commissioner

State of South Carolina Department of Agriculture

Wade Hampton Office Building
PO Box 11280
Columbia, SC 29211
TL: (803) 734-2210
FX: (803) 734-2192

www.scd.a.state.sc.us

Management's Response

Capital Assets Closing Package – Outstanding Construction Commitments:

This department has never engaged in a construction project of this size, nor for this duration. There has been a tremendous learning curve related to all aspects of this project, not the least of which involved this closing package. This finding was due to complete oversight. The error was made unknowingly and unwittingly and will be corrected on the closing package to be submitted at the end of FY 2011.

Accounts Payable Closing Package – Retainage Payable and Construction Payable:

This department has never engaged in a construction project of this size, nor for this duration. There has been a tremendous learning curve related to all aspects of this project, not the least of which involved this closing package. This finding was due to complete oversight. The error was made unknowingly and unwittingly and will be corrected on the closing package to be submitted at the end of FY 2011.

Operating Lease – Lessor Closing Package – Future Minimum Lease Payments to Be Received:

Finance Managers have been unaware of the long-term lease agreement for more than 15 years. Upon inquiry at the farmers markets, we have determined that the majority of our leases are for one-year terms, however, we have discovered that the Greenville Farmers Market has had a 30-year lease in place since 1993. We are in the process of implementing procedures for the markets to notify us when leases for more than one year are approved and we will begin reporting these "Future Payments to Be Received" at the end of FY 2011.

Accounts Receivable Summary Form Closing Package:

Any amounts used on GAAP closing packages are typically checked and reviewed by the preparer and the reviewer before submitting to the Comptroller General's Office. This amount was typed incorrectly. We have backup documentation showing the correct amount. We will make every effort, as we always do, to ensure amounts are correct.

Beverly S. Cleare

Beverly S. Cleare
Director of Administration

June 2, 2011

Date