

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

STATE AUDITOR'S REPORT

JUNE 30, 1997

CONTENTS

	<u>SCHEDULE</u>	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
II. FINANCIAL INFORMATION		
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - BUDGETARY GENERAL FUND - FOR THE YEAR ENDED JUNE 30, 1997	1	4
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - OTHER BUDGETED FUNDS - FOR THE YEAR ENDED JUNE 30, 1997	2	5
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - TOTAL BUDGETED FUNDS - FOR THE YEAR ENDED JUNE 30, 1997	3	6
NOTES TO SCHEDULES		7
III. ACCOUNTANT'S COMMENTS		
SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS		9
PAYMENTS TO FRUIT AND VEGETABLE INSPECTORS		10
SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL		11
PERSONNEL RECORDS		12
COMPENSATED ABSENCES CLOSING PACKAGE		13
MANAGEMENT'S RESPONSE		14

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 11, 1998

The Honorable D. Leslie Tindal, Commissioner
South Carolina Department of Agriculture
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Agriculture, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
2. We tested 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 and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 19 percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was one percent of the aggregate amount of all recorded payroll disbursements. Our findings as a result of these procedures are presented in Personnel Records and Payment to Fruit and Vegetable Inspectors in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all recorded operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The items selected for testing were chosen randomly. The total of the selected journal entries was 7.8 percent of the aggregate amount of all such recorded transactions. We found no exceptions as a result of the procedures.
5. We tested 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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1997, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Department's accounting records or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures.

8. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Department and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Department. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Department and submitted to the State Comptroller General and reviewed 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. Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1997, prepared by the Department and submitted to the State Auditor and reviewed 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, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through ten of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures -
 Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$3,919,521	\$3,681,116	\$238,405
Employer Contributions	1,055,587	970,117	85,470
Other Operating Expenses	2,277,323	2,109,412	167,911
Permanent Improvements	-	-	-
<i>Special Item:</i>			
Agricultural Marketing	<u>50,800</u>	<u>50,800</u>	<u>-</u>
Total Expenditures	<u>\$7,303,231</u>	<u>\$6,811,445</u>	<u>\$491,786</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$1,904,597	\$1,298,553	\$ 606,044
Employer Contributions	463,209	323,239	139,970
Other Operating Expenses	2,504,297	2,005,772	498,525
Permanent Improvements	203,000	16,125	186,875
<i>Special Item:</i>			
Agricultural Marketing	-	-	-
Total Expenditures	<u>\$5,075,103</u>	<u>\$3,643,689</u>	<u>\$1,431,414</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 5,824,118	\$ 4,979,669	\$ 844,449
Employer Contributions	1,518,796	1,293,356	225,440
Other Operating Expenses	4,781,620	4,115,184	666,436
Permanent Improvements	203,000	16,125	186,875
<i>Special Item:</i>			
Agricultural Marketing	<u>50,800</u>	<u>50,800</u>	<u>-</u>
Total Expenditures	<u>\$12,378,334</u>	<u>\$10,455,134</u>	<u>\$1,923,200</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The South Carolina Department of Agriculture is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

SOUTH CAROLINA SCHOOL DEPARTMENT OF AGRICULTURE

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Department's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$6,287,502
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 17C.19.)	102,983
Supplemental Appropriations from 1996 Surplus	
State General Fund Revenues from Part V of	
the 1997 Act for Agricultural Marketing	<u>50,800</u>
Revised Appropriation - Legal Basis	6,441,285
Plus: 1996 Appropriation Brought Forward	
(1997 Proviso 72.44.)	<u>861,946</u>
Legal Basis Appropriation Available for 1997	
Expenditures	<u>\$7,303,231</u>

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the Department carried forward \$491,786 of unspent State General Fund appropriations from the current fiscal year into the next fiscal year. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION 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 an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

The condition described in this section have been identified as a material weakness or violation of State Laws, Rules, or Regulations.

PAYMENTS TO FRUIT AND VEGETABLE INSPECTORS

While testing payroll additions we noted that two temporary employees were paid in excess of the hours worked. The employees were each paid for working 40 hours. However, their timesheets documented that they only worked 36 hours. Department personnel told us that in order to obtain qualified inspectors that they had to guarantee them a 40-hour workweek. They also provided us with an internal document outlining their policy.

Section 8-11-30 of the 1976 South Carolina Code of laws states, “(A) It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees...”

We recommend the Department develop and implement procedures to ensure compliance with Section 8-11-30. The Department should explore alternatives to its current method for compensating inspectors (e.g., treat them as independent contractors and pay them by the job instead of by the hour).

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

PERSONNEL RECORDS

The Department was unable to provide us with one of twenty-five personnel files that we requested. The Human Resource Manager told us that the file was misplaced while she was on maternity leave. She said that she noticed it was missing when she returned but she had no success in locating it.

Section 19-708.03 of the State Human Resource Regulations specifies that each agency shall maintain an official individual personnel file for each employee.

We recommend the Department develop and implement procedures to ensure that all personnel files are properly maintained and controlled. We also recommend that the Department attempt to locate the missing file or recreate it.

COMPENSATED ABSENCES CLOSING PACKAGE

The Department did not complete its 1997 compensated absences closing package in accordance with the GAAP Closing Procedures Manual instructions. The procedures manual instructs preparers to calculate the annual leave liability by multiplying the employees' annual leave balance at year-end times the employees' hourly rate in effect at year-end. The Department calculated the annual leave liability using the lesser of (1) the employees' annual leave balance at year-end or (2) 45 days less annual leave taken between January 1 and June 30 times the employees' hourly rate. As a result the Department's compensated absences liability was understated approximately \$104,700.

We recommend the Department implement procedures to ensure that all future GAAP closing packages and supporting documentation contain accurate and complete information in accordance with the GAAP Closing Procedures Manual requirements and instructions. Furthermore, the Department should ensure that personnel preparing and reviewing the closing packages are knowledgeable about GAAP and familiar with the GAAP Manual guidance related to the closing packages for which they are responsible.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE

III ACCOUNTANT COMMENTS

SECTION A – MATERIAL WEAKNESS AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

PAYMENTS TO FRUIT AND VEGETABLE INSPECTORS

For many years, the Department of Agriculture has employed fruit and vegetable inspectors at the farmers market. The agreement has been that if an inspector is hired the inspector is guaranteed an 8 hour day if the inspector is needed and called to work. This practice is common at farmers markets in the southeastern region.

The fruit and vegetable inspectors are USDA certified and may come to Columbia from as far away as Florida and Indiana. The market must be able to agree to pay these inspectors for a full day even if the market's inspections require less time to complete. The practice of paying inspectors for more time than they are actually on the job is a necessary practice and only occurs during the shoulder months when there are lower amounts of fruits and vegetables on the market.

In order to be competitive for the services of certified fruit and vegetable inspectors, the market must be in a position to offer the same wages as the markets in our area.

We have and are presently reviewing whether these inspectors could be hired as contract employees. This may be a questionable practice because the inspectors do not fit the definition of contractors per se. We have discussed this with Human Resources and the Comptroller General's office and they concur that classifying the inspectors as contractors may not be the proper classification.

The other alternative to remedy this situation may be to ask the Legislature to pass a proviso to our budget to allow the Department of Agriculture to continue this practice.

SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL

PERSONNEL RECORDS

We are currently in the process of changing our personnel files to a color file, which would help distinguish them. To always keep control over the file when it is necessary for the file to be out of personnel, appropriate procedures should be followed. A sign out sheet should be designated with signature, time and date. When the file is returned to personnel, the sheet would indicate that also. The Human Resources Manager has recreated a new file, based on the information we do have. We will continue to look for this file with the hopes that it may still be located.

COMPENSATED ABSENCES CLOSING PACKAGE

At the time the closing package was due, Mrs. Sheila Howard was on maternity leave and her fill-in, Ms. Isabel Cordova, completed the package. Ms. Cordova used the wrong formula. The Human Resource Department has changed the compensated absences report back to the original format to calculate the annual leave liability by multiplying the employee's annual leave balance at year-end time the employee's hourly rate in effect at year-end, not just the 45 days. Therefore, it is understood that personnel has complete knowledge of this procedure in order to prepare this compensated absences report.