SOUTH CAROLINA
DEPARTMENT OF AGRICULTURE

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 27, 2016

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 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, 2015, 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 twenty-five 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 eleven 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 account 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 ($900 – general fund, $63,900 – earmarked fund, $7,200 – restricted fund, and $8,500 – federal fund) and ± 10 percent.
    - We made inquiries of management pertaining to the Department's policies for accountability and security over licenses and other documents issued for money. We observed Department 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 Receipt Documentation in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**
   - We inspected twenty-five 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 twenty-five 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 account 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 ($47,100 – general fund, $69,100 – earmarked fund, $0 – restricted fund, and $10,900 – federal fund) and ± 10 percent.
   - We inspected five selected recorded procurement card transactions to determine if these transactions were reasonable; made by an authorized user for an allowable business expense; supported by adequate documentation; properly approved; under the $2,500 single transaction limit; and under the established credit limit with no indication of transaction splitting.

   The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Approval of Lodging Reimbursement and Late Payment Fees in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**
   - We inspected twenty-five 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; and payroll transactions 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 payroll transactions for eighteen selected new employees and seventeen individuals 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 inspected three bonus pay disbursements to determine if the selected bonus did not exceed $3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than $100,000.
   - We compared current year payroll expenditures at the subfund and account 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 Department's accounting records. The scope was based on agreed upon materiality levels ($47,100 – general fund, $69,100 – earmarked fund, and $10,900 – 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 $\pm$10 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

4. **Journal Entries, Operating Transfers Between Subfunds and Interagency Appropriation/Cash Transfers**
   - We inspected sixteen selected recorded journal entries, all operating transfers between subfunds, and all interagency appropriation/cash 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 journal entry transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments section of this report.

5. **Appropriation Act**
   - We inspected agency documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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

6. **Reporting Packages**
   - We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

   Our findings as a result of these procedures are presented in Reporting Packages, Account Coding, Asset Retirements and Petty Cash in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, 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.

8. **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, 2015, to determine if the Department had taken corrective action.

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

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than $100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than $100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 and of the 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.

George L. Kennedy, III

George L. Kennedy, III, CPA
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.

REPORTING PACKAGES

Condition:

We noted the following during our testing of the Department's fiscal year 2015 reporting packages:

1. The Department indicated on the Master Reporting Package that it had no prepaid expenses in fiscal year 2015. However, during our analytical review of expenditures, we noted the Department prepaid an expense for building rent which exceeded the Comptroller General's reporting threshold. Therefore the Department should have submitted a Prepaid Expenses Reporting Package.

2. On Form 3.08.1 (Compensated Absences Summary Form) the Department incorrectly reported the total liability in Part II rather than the variance between the total liability and the SCEIS report for funds 10010000, 33010000, 35210000, and 38330000.

3. On Form 3.05.5 (Reconciliation of SCEIS Asset History Activity to General Ledger Activity) the Department reported activity for G/L account 1801018000 (Med & Lab Equip) rather than G/L account 1801099000 (Low Value Assets).

4. On Form 3.09.1 (Operating Leases Summary Form – Lessee) the Department incorrectly reported amounts for One Time Rental Payments, Payments for Supplies and Other Billing Charges, Required Minimum Lease Payments for Operating Leases, and Other Adjustments.

5. The Department incorrectly reported effective dates for one lease and also omitted three operating leases from Form 3.09.1a (Operating Leases Future Minimum Payment Schedule). In addition, the Department incorrectly reported the amount of Current Expense and Future Minimum Lease Payments for fiscal years 2016 – 2035.

Cause:

Department personnel stated:

1. In fiscal year 2015, a new lease was entered into for one of the Department's rental buildings which updated the due date of the rental payment. As a result of the new due date, the prepayment was overlooked.

2. In fiscal year 2014, the reporting package instructions required the total correct liability to be reported in Part II of Form 3.08.1 rather than the variance. The prior year's package was used as a guide in completing the fiscal year 2015 package; therefore, Department personnel were unaware the instructions were revised.

3. There was a misunderstanding regarding what was required to be reported on Form 3.05.5.

4. Various rental payments were inadvertently misclassified.

5. The effective dates relating to an old agreement were inadvertently reported for one lease on Form 3.09.1a. Also, due to the misclassification of rental payments, three leases were omitted from the form.

Effect:

1. The Prepaid Expenses Reporting Package was not prepared and submitted to the Comptroller General's Office.

2. Funds 10010000, 33010000, 35210000, and 38330000 were overstated by $257,201, $19,691, $8,706, and $13,063, respectively, on Form 3.08.1.

3. The variance was overstated by $121,298 for G/L account 1801018000 and understated by $9,038 for G/L account 1801099000 on Form 3.05.5.

4. One Time Rental Payments and Payments for Supplies and Other Billing Charges were overstated by $5,616 and $86,898, respectively, on Form 3.09.1. Required Minimum Lease Payments for Operating Leases and Other Adjustments were understated by $31,711 and $60,802, respectively, on Form 3.09.1.

5. Total Current Expense and Total Future Minimum Lease Payments were understated by $31,711 and $931,824, respectively, on Form 3.09.1a.

Criteria:

Section 1.7 of the Comptroller General's Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing packages and compare the supporting working papers prior to submission to eliminate errors.

Management's Response:

An employee of SCDA is currently enrolled in classes through the Government Finance Officers Association which will address, specifically, GAAP closing packages to better ensure proper reporting.

APPROVAL OF LODGING REIMBURSEMENT

Condition:

During our Test of Disbursements, we noted one employee was reimbursed for lodging at a rate which exceeded the U.S. General Services Administration's (GSA) maximum lodging rate. The employee was reimbursed $119/night; however, the GSA rate was $98/night. In addition, the Department did not complete the "Approval for Exceeding Travel Expense Limits" form to justify the rate.

Cause:

Department personnel stated the travel voucher associated with this reimbursement included two trips. The "Approval for Exceeding Travel Expense Limits" form was properly completed for one trip. The approver inadvertently thought the form related to both trips, so an additional form was not requested for the second trip.

Effect:

The Department was not in compliance with the Comptroller General's Disbursement Regulations.

Criteria:

Section 21 of the Comptroller General's Disbursement Regulations states, "Actual costs for lodging will be reimbursed in accordance with current maximum lodging rates as established by the U.S. General Services Administration. Any exception must have written approval of the agency head."

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure travel reimbursements are made and approved in accordance with Comptroller General's Disbursement Regulations.

Management's Response:

While most employees submit their forms after each trip, there are occasions when employees submit reimbursement requests for multiple trips, especially if the trips were close together. Accounts Payable employees have been notified to ensure proper documentation is included for each trip listed on a travel reimbursement form.

LATE PAYMENT FEES

Condition:

During our Cut-Off Test of Disbursements, we noted the Department did not pay one invoice by the due date. As a result, the vendor assessed a late fee of $9 on the next month's invoice which was subsequently approved and paid by the Department.

Cause:

Department personnel stated managers from the farmers markets are often relied upon to send invoices in a timely manner to the respective department. In this instance, the invoice was sent to the IT department who subsequently failed to forward it to the Finance department. The Finance department received a duplicate invoice with the assessed late fee the following month and approved and paid the invoice immediately.

Effect:

The Department was not in compliance with the Comptroller General's Disbursement Regulations.

Criteria:

Section 22 of the Comptroller General's Disbursement Regulations states, "State agencies on the Comptroller General's system are expected to exercise prudence to ensure all invoices and vouchers are delivered to the Comptroller General's Office within thirty workdays to avoid the assessment of late payment charges."

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure all invoices are paid in accordance with the Comptroller General's Disbursement Regulations to avoid the assessment of late payment fees.

Management's Response:

As stated, our Accounts Payable office does depend on invoices to be sent by the appropriate field staff in a timely manner to ensure no late payments. These late payments have been addressed with the appropriate SCDA personnel, with the request to expedite these invoices to AP to ensure timely payment. According to SCDA personnel, by the time these invoices arrive to her office, they are already past due. She has contacted the vendor multiple times for a resolution to this problem but has gotten no satisfaction. We will continue to try to work with this vendor to solve this problem.

ACCOUNT CODING

Condition:

1. During our Test of Operating Transfers, we noted the Department miscoded two cash transfers totaling $150,000. The transfers-in were coded to G/L account 6200010000 (Operating Transfers Out) and the transfers-out were coded to G/L account 6100010000 (Operating Transfers In).

2. During our review of the Litigation Reporting Package, we noted the Department coded attorney fees related to general counsel totaling $3,091 to G/L account 5071300000 (Attorney Fees – Construction Projects) instead of G/L account 5021020000 (Attorney Fees).

Cause:

Department personnel stated:

1. There was a misunderstanding regarding the coding of transfers until the State Treasurer's Office released a memo to all state agencies providing clarification.

2. The itemized invoices were not thoroughly reviewed to separate fees related to general counsel and construction projects.

Effect:

The Department was not in compliance with the Comptroller General's Policies and Procedures.

Criteria:

The Comptroller General's Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent account treatment.

Recommendation:

We recommend the Department ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

Management's Response:

1. We have taken appropriate action in correcting these specific G/L's by ensuring the employee responsible for keying and the employee responsible for approving the transactions audit the documents carefully for errors.

2. Employees responsible for approving these invoices will inform A/P employees of the specific fund that should be used to pay any portion of the invoice to code the expenses properly.

TRAVEL ADVANCE

Condition:

During our review of travel advances, we noted one travel advance was repaid to the Department fifty-eight days after the end of the trip.

Cause:

Department personnel stated the money order provided by the employee was inadvertently overlooked and was therefore not deposited in a timely manner by the Finance department.

Effect:

The Department was not in compliance with the Comptroller General's Disbursement Regulations.

Criteria:

Section 3 of the Comptroller General's Disbursement Regulations state, "…all advances for travel and subsistence monies shall be repaid to the agency within thirty days after the end of the trip…".

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure travel advances are repaid in accordance with the Comptroller General's Disbursement Regulations.

Management's Response:

This specific travel advance was repaid to the agency by the employee within 30 days after the end of the trip. The agency employee who was responsible for ensuring the funds were deposited timely was going through a death in the family and two agency audits during this time. This money order and documentation was set aside until proper time could be found to process. We will ensure that all travel advances requiring reimbursement from the employee are repaid and deposited according to state regulations by training other personnel how to manage these reimbursements.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

RECEIPT DOCUMENTATION

Condition:

During our Test of Revenues, we noted the supporting documentation associated with two receipt transactions did not agree to the amount deposited and reported in the SCEIS general ledger.

Cause:

Department personnel stated the invoices associated with the collections were incorrectly calculated; however, the amount deposited and recorded in SCEIS was correct.

Effect:

We were unable to determine whether the proper amounts were deposited and recorded in the SCEIS general ledger.

Criteria:

Effective internal controls include procedures to ensure documentation is maintained to support all accounting transactions.

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure documentation is maintained to support all accounting transactions.

Management's Response:

Accounts Receivable staff has been instructed to ask for revised invoices to ensure payment received was correct and as supporting documentation for amounts deposited.

ASSET RETIREMENTS

Condition:

The Department could not provide documentation to support the disposal of three assets tested in our Test of Asset Retirements.

Cause:

Department personnel stated the assets were included in a large group of equipment surplused in 2010 when its laboratory moved locations. However, when a department-wide inventory was completed in fiscal year 2015, these assets were discovered in the asset system and subsequently removed. Documentation related to the disposals could not be located.

Effect:

We were unable to determine whether the Department's assets were properly disposed.

Criteria:

Effective internal controls include procedures to ensure supporting documentation is maintained for all asset disposals and that subsidiary ledgers are reconciled and reviewed for accuracy on a regular basis.

Recommendation:

We recommend the Department strengthen its policies and procedures to ensure all asset disposals are supported by original source documentation and reconciled to SCEIS.

Management's Response:

All turn-in documents for surplus property are properly filed at this time.

PETTY CASH

Condition:

The Department has authorized petty cash accounts totaling $1,200. Through inquiry, we learned the individual who maintains each petty cash account also performs all reconciliations; therefore, an independent reconciliation is not performed. In addition, we noted the Department does not maintain documentation of these reconciliations.

Cause:

Department personnel stated petty cash accounts are spread out at various office locations; therefore, there is no one available to complete an independent reconciliation of each account.

Effect:

The Department does not have adequate internal controls in place to mitigate the risks associated with its petty cash accounts.

Criteria:

A strong system of internal controls includes procedures to ensure there is proper segregation of duties and documentation of reconciliations of cash on hand being performed and properly approved.

Recommendation:

We recommend the Department implement procedures to ensure reconciliations of petty cash accounts are properly documented and independently reviewed. We also recommend the Department periodically perform surprise counts of the petty cash account to ensure that the cash on hand reconciles with the authorized balance.

Management's Response:

SCDA now has a policy in place to properly reconcile petty cash accounts. Each location will have someone separate from the petty cash manager to reconcile at least once per year and document this reconciliation. However, Finance will also make trips to each location at some point during the year to do a thorough reconciliation as well.

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, 2014, and dated June 11, 2015. We determined that the Department has taken adequate corrective action on the findings titled Timeliness of Deposits, Timely Payment of Invoices, Attorney Fees, Personal Property Inventory, Bond Approval, and State Human Affairs Commission Employment Data. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct a number of deficiencies noted in the finding titled Operating Leases Reporting Package as well as the finding titled Allocation of Rental Charges reported in the prior year. However, because the procedures were implemented after June 30, 2014, we did not perform tests of the new procedures. Further, we determined the findings titled Account Coding and Reporting Packages still exist; consequently, we have reported similar findings in Section A of the report.

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