

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
BEEF COUNCIL**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
BEEF COUNCIL**

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Independent Auditor's Report

Members of the South Carolina Beef Council
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Agriculture – Beef Council (the “Beef Council”) special revenue fund as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Beef Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As explained in Note 1 to the financial statements, the Beef Council has not recorded a liability for unfunded pension costs or unfunded postemployment benefits other than pensions (OPEB) in the financial statements. The Governmental Accounting Standards Board (GASB) requires that the Beef Council recognize their proportionate share of the pension liability as a participant in the South Carolina Retirement System, the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund. The effects on the accompanying financial statements for the failure to record the liability has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Agriculture — Beef Council special revenue fund as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements of the South Carolina Department of Agriculture – Beef Council special revenue fund are intended to present the financial position and results of operations of only that portion of the funds of the South Carolina Department of Agriculture attributable to the transactions of the Beef Council special revenue funds and do not include any other accounts or funds of the South Carolina Department of Agriculture or any other department or component unit of the State of South Carolina, and are not intended to present fairly the financial statements and results of operations of the South Carolina Department of Agriculture in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020, on our consideration of the Beef Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Beef Council's internal control over financial reporting and compliance.



Columbia, South Carolina
October 26, 2020

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
BEEF COUNCIL
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2020**

	Checkoff Assessments - <u>Federal</u>	Checkoff Assessments - <u>State</u>	<u>Total</u>
ASSETS			
Cash	\$ 110,627	\$ 5,222	\$ 115,849
Accounts receivable	14,029	5,714	19,743
Due from checkoff assessments - State	<u>25,000</u>	-	<u>25,000</u>
Total assets	<u><u>149,656</u></u>	<u><u>10,936</u></u>	<u><u>160,592</u></u>
LIABILITIES			
Accounts payable	11,068	-	11,068
Accrued salaries and related benefits	4,281	-	4,281
Due to checkoff assessments - Federal	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Total liabilities	<u><u>15,349</u></u>	<u><u>25,000</u></u>	<u><u>40,349</u></u>
FUND BALANCE			
Assigned	134,307	10,936	145,243
Unassigned	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>
Total fund balance	<u><u>134,307</u></u>	<u><u>(14,064)</u></u>	<u><u>120,243</u></u>
 Total liabilities and fund balance	 <u><u>\$ 149,656</u></u>	 <u><u>\$ 10,936</u></u>	 <u><u>\$ 160,592</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
 BEEF COUNCIL
 STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2020

	Checkoff Assessments - <u>Federal</u>	Checkoff Assessments - <u>State</u>	<u>Total</u>
REVENUE			
Assessments	\$ 178,480	\$ 66,118	\$ 244,598
Less, assessments remitted to other states	(38,696)	-	(38,696)
Less, assessments remitted to Cattlemen's Beef Promotion and Research Board	<u>(68,867)</u>	<u>-</u>	<u>(68,867)</u>
Net assessment revenue	<u>70,917</u>	<u>66,118</u>	<u>137,035</u>
EXPENDITURES			
Advertising and promotion	6,404	98,624	105,028
Salaries and benefits	55,312	-	55,312
Board meetings and related costs	4,610	-	4,610
Operating costs	<u>13,511</u>	<u>784</u>	<u>14,295</u>
Total expenditures	<u>79,837</u>	<u>99,408</u>	<u>179,245</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(8,920)</u>	<u>(33,290)</u>	<u>(42,210)</u>
Intra-fund activity	12,000	(12,000)	-
Fund balance, beginning	131,227	31,226	162,453
Fund balance, ending	<u>\$ 134,307</u>	<u>\$ (14,064)</u>	<u>\$ 120,243</u>

The accompanying notes are an integral part of the financial statements.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Reporting Entity

The South Carolina Cattle and Beef Board was established January 3, 1985, as a commodity board under Section 46-17-190 of the South Carolina Code of Laws of 1962. The Board approved a name change to the South Carolina Beef Council (also referred as the “South Carolina Department of Agriculture - Beef Council” or the “Beef Council”). The Beef Council is included as a part of the South Carolina Department of Agriculture. The Department of Agriculture is considered part of the State of South Carolina’s primary government and as such is included in the State of South Carolina’s Comprehensive Annual Financial Report. The Beef Council was established for education, promotion and research to strengthen the cattle and beef industry’s position in the marketplace.

The South Carolina Beef Council, whose members are elected by local producers, is the governing body of the Beef Council.

The South Carolina Department of Agriculture administers the funds of the Beef Council. The Beef Council operates as a special revenue fund of the Department of Agriculture. The accompanying financial statements present the financial position and results of operations solely of the Beef Council special revenue fund and do not include any other funds of the State of South Carolina.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements were prepared using the fund accounting principles per the Government Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*. The accounts of the Beef Council are accounted for as a fund of the Department of Agriculture. Government resources are allocated to and accounted for in this individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Beef Council funds are accounted for in a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specific purposes.

Originally the Beef Council assessments program was financed exclusively by an assessment of \$1 per head assessment on sales of domestic and imported cattle and beef products in order to support beef/veal promotion, research and information through the *Beef Promotion and Research Act of 1985*. The Cattlemen’s Beef Promotion and Research Board receives approximately one-half of assessment monies and the Beef Council retains the remainder. Beginning on January 1, 2015, an additional \$0.50 per head assessment was implemented, with certain exceptions. These assessments are retained by the Beef Council and recorded in a separate fund. The funds are to be used for in-state promotion, research and education as outlined under the *South Carolina Marketing Order for Cattle and Beef*.

(Continued)

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

Special revenue funds of governmental units are accounted for using the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available as net current assets. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenue to be available if it is collected within one month of the end of the current fiscal period.

Expenditures are recognized under the modified accrual basis of accounting generally when the related fund liability is incurred.

Budgetary Controls

Several months prior to the start of the fiscal year, the Executive Director of the Beef Council develops a budget proposal for revenue and expenditures. The proposal is developed through evaluation of historical financial data and knowledge of future events. The proposal is presented to the Beef Council for both discussion and review.

Fund Balances

The Beef Council reports the following classifications of fund balances:

Nonspendable – Fund balances that are not in spendable forms or are required to be maintained intact.

Restricted – Fund balances that are limited to restrictions by creditors, grantors, laws, and regulations of other governments.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, the South Carolina Beef Council.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned – Fund balances that are not constrained for any particular purpose.

At June 30, 2020, the Beef Council's fund balances have been classified as assigned and unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(Continued)

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

Pension

In 2015, the Beef Council adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement 27*, which requires that the Beef Council recognize in its financial statements its proportionate share of pension liability as a participant in the South Carolina Retirement System. The Beef Council's funds are administered by the South Carolina Department of Agriculture, and the Beef Council's sole employee is included in the South Carolina Department of Agriculture's pension liability. However, the Beef Council has not determined its proportionate share of the pension liability. See Note 3 for additional information.

Other Postemployment Benefits (OPEB)

In 2018, the State of South Carolina adopted the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. GASB requires that the Beef Council recognize in its financial statements its proportionate share of the other postemployment benefits liability as a participant in the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund. The Beef Council's funds are administered by the South Carolina Department of Agriculture, and the Beef Council's sole employee is included in the South Carolina Department of Agriculture's other postemployment benefits liability. However, the Beef Council has not determined its proportionate share of the other postemployment benefits liability. See Note 4 for additional information.

NOTE 2 – DEPOSITS

All deposits of the South Carolina Department of Agriculture - Beef Council are under the control of the State Treasurer who, by law, has sole authority for investing State Funds.

South Carolina State law requires full collateralization of all South Carolina State Treasurer bank balances. The South Carolina State Treasurer must correct any deficiencies in collateral within seven (7) days. As of June 30, 2020, all South Carolina State Treasurer bank balances were fully insured or collateralized with securities held by the State of South Carolina or its agent in the State of South Carolina's name.

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Beef Council's deposits may not be returned or the Beef Council will not be able to recover collateral securities in the possession of an outside party.

Section 11-13-60 of the South Carolina Code of Laws requires these funds to be fully insured or collateralized. All deposits of the Beef Council met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Beef Council's name.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – PENSION PLAN

Plan Description

The sole employee of the Beef Council is eligible to participate in a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefits Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Plan Benefits

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90).

The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, the AFC is the average annual earnable compensation during the highest 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, the AFC is the average annual earnable compensation during the highest 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 5 years of earned service and either have at least 15 years of total service credit or are at least 60 years of age at time of death.

(Continued)

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – PENSION PLAN (CONTINUED)

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job-related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member.

Effective July 1, 2019, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The SCRS contribution rate for fiscal year 2020 is a base retirement contribution of 15.41%, .15% for incidental death benefits and a 6.25% surcharge that will fund retiree health and dental insurance coverage (see Note 4). The Council's actual contribution to the SCRS for the fiscal year ended June 30, 2020 was approximately \$6,400 excluding the surcharge. Also, the Council paid employer incidental death benefit contributions of approximately \$70 at the rate of .15% of compensation for the fiscal year ended June 30, 2020.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

The Beef Council's funds are administered by the South Carolina Department of Agriculture, and the Beef Council's sole employee is included in the South Carolina Department of Agriculture's pension liability. At June 30, 2020 a calculation has not been made to determine how much of its pension liability should be allocated to the Beef Council and as such, this liability has not been recorded in its financial statements. The net pension liability defined of the SCRS defined benefit pension plan was determined based on the July 1, 2019 actuarial valuations, using membership data as of July 1, 2018, projected forward to June 30, 2019, and financial information of the pension trust funds as of June 30, 2019, using generally accepted actuarial procedures. The Beef Council's portion of the net pension liability was based on the Beef Council's share of contributions to the pension plan relative to the contributions of all participating entities.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Beef Council contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Plan Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB. For active employees who are not funded by State General Fund appropriations, participating employees are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office.

The Beef Council paid approximately \$2,600 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2020. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF.

(Continued)

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA, Insurance Benefits Division, issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

The Beef Council's funds are administered by the South Carolina Department of Agriculture, and the Beef Council's sole employee is included in the South Carolina Department of Agriculture's OPEB liability. At June 30, 2020 a calculation has not been made to determine how much of its OPEB liability should be allocated to the Beef Council and as such, this liability has not been recorded in its financial statements. The net OPEB liability was determined based on the July 1, 2019 actuarial valuations, using membership data as of July 1, 2018, projected forward to June 30, 2019, and financial information of the pension trust funds as of June 30, 2019, using generally accepted actuarial procedures.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Beef Council has certain transactions with the South Carolina Department of Agriculture and various other state agencies.

Services received at no cost from State agencies include maintenance of certain accounting records and disbursement processing from the Comptroller General; check preparation and banking functions from the State Treasurer; legal services from the Attorney General; procurement services from the State Fiscal Accountability Authority; and various other centralized functions from the Department of Administration.

(Continued)

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Department of Agriculture provides to the Beef Council at no cost, office space, personnel and payroll services, record keeping, disbursement processing, insurance coverage and other centralized functions.

The Beef Council also had financial transactions with various State agencies during the fiscal year. Payments were made to certain divisions of the Department of Administration for office supplies, telephone, and data processing services. The amount of 2020 expenditures applicable to related party transactions are not readily determinable.

The South Carolina Beef Council, as a Qualified State Beef Council, remits a portion of its assessment proceeds to the Cattlemen’s Beef Promotion and Research Council. The authority for the formation of the Cattlemen’s Beef Promotion and Research Council was the *Beef Promotion and Research Act of 1985* (the Act). The Act provides for the establishment of a coordinated program of promotion and research designed to strengthen the beef industry’s position in the marketplace, as well as to maintain and expand domestic and foreign markets and uses for beef and beef products. As provided in the Act, the Secretary of the United State Department of Agriculture issued the *Beef Promotion and Research Order*, effective July 18, 1986, which provides the terms and conditions for the Act’s administration. The Cattlemen’s Beef Promotion and Research Council consists of various members who are representatives of the cattle industry in the United States, including importers.

Originally the program was financed exclusively by an assessment of \$1 per head assessment on sales of domestic and imported cattle and beef products. The Cattlemen’s Beef Promotion and Research Board receives approximately one-half of assessment monies and the Beef Council retains the remainder. Beginning on January 1, 2015, an additional \$0.50 per head assessment was implemented, with certain exceptions. These assessments are retained by the Beef Council and recorded in a separate fund. The funds are to be used for in-state promotion, research and education as outlined under the *South Carolina Marketing Order for Cattle and Beef*.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE – BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – RISK MANAGEMENT

The South Carolina Beef Council is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Beef Council. The Beef Council has not had any claims in the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The South Carolina Department of Agriculture pays insurance premiums to certain State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered premium losses sustained during the policy period in accord with the insurance policy and benefit program limits.

The South Carolina Department of Agriculture provides the Beef Council with insurance at no cost. The South Carolina Department of Agriculture and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events.

1. Personal property and equipment – Eighty percent of each loss is covered by the IRF. Losses are subject to a \$1,000 deductible.
2. Data processing equipment – Coverage is up to \$100,000 per loss with a \$1,000 deductible.
3. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses. The IRF's rates are determined actuarially.

The South Carolina Department of Agriculture purchases insurance coverage for employee fidelity bond insurance coverage arising from theft or misappropriations. The policy has a \$1,000 deductible with a coverage limit of \$50,000.

The Beef Council has not recorded any estimated losses or expenditures related to the deductible or policy limits because there is no evidence of asset impairment or other information to indicate a loss should be recorded.

All payments for insurance are made by the South Carolina Department of Agriculture, and the Beef Council does not reimburse any of those expenses.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2020, which is the date that these financial statements were available to be issued.



**Independent Auditor’s Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the South Carolina Beef Council
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, of financial statements of the South Carolina Department of Agriculture — Beef Council (the “Beef Council”) as of and for the year ended June 30, 2020, and related notes to the financial statements, which collectively comprise the Beef Council's basic financial statements and have issued our report thereon dated October 26, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Beef Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Beef Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Beef Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Beef Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Specifically, we tested compliance with the *Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order*. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses in findings 2020-001, 2020-002 and 2020-003.

Further, because the Beef Council has no investments, nothing came to our attention that caused us to believe the Council was not in compliance with the provisions of the Beef Board *Investment Policy for Qualified State Beef Councils* dated March 14, 2016, which describes the type of instruments in which the Council may invest. Our audit was not, however, directed primarily toward obtaining knowledge of such noncompliance.

The South Carolina Beef Council's Response to Findings

The Beef Council's response to the findings identified in our audit is included in the accompanying Schedule of Findings and Responses. The Beef Council's responses were not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Beef Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina
October 26, 2020

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
BEEF COUNCIL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? No

Noncompliance with the *Beef Promotion and Research Act of 1985* and the *Beef Promotion and Research Order* as required in Cattlemen's Beef Board *Guidelines for Qualified State Beef Councils (the Guidelines)* or the Cattlemen's Beef Board *Collections Compliance Manual* Yes

Section II. Financial Statement Findings

None

Section III. Compliance Findings

2020-001: Cost Allocation

Condition:

The South Carolina Beef Council (the Beef Council) has not implemented a cost allocation plan or other acceptable cost sharing method in accordance with the Cattlemen's Beef Board *Guidelines for Qualified State Beef Councils (the Guidelines)*.

Context:

We were told by Beef Council staff that the Beef Council had not implemented a cost allocation plan for FY20. We did determine, however, the Beef Council transferred \$1,000 each month (\$12,000 total for the fiscal year) from the State checkoff program to the Federal checkoff program based on prior year allocation estimates.

Cause:

The Beef Council made estimated transfers in lieu of a cost allocation plan. These estimates were not approved by the Cattlemen's Beef Board for FY20 and were not in compliance with the *Guidelines*.

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Effect:

The Beef Council failed to accurately allocate expenses that it shared with any other entity or funding source in a manner that complies with the *Beef Promotion and Research Act of 1985* and the *Beef Promotion and Research Order* as required in the *Guidelines*.

Criteria:

According to the *Guidelines*, Qualified State Beef Councils (QSBC) must use funds collected under the Act and Order for allowable activities. Therefore, QSBCs must have processes and procedures in place to ensure that checkoff funds are spent only on eligible activities, especially if a QSBC manages multiple funding sources such as administering a state-legislated checkoff program or grant funds. In this situation, a QSBC must distribute compensation and overhead costs (i.e. implementation costs) equitably between all funding sources and/or industry organizations. The *Guidelines* also state that an allocation process, designed to calculate the cost of an organization's activities, should be built on an allocation basis that fairly distributes costs to all activities. Actual time worked by all staff, even those who do not work on activities funded by the federal checkoff, is the recommended allocation basis.

Further, the *Guidelines* state that all funding sources must fairly share in administrative costs and that it is not reasonable for a state's share of the federal checkoff to pay for all administrative costs of an organization when the organization manages more than one funding source.

Recommendation:

We recommend the Beef Council implement a cost allocation plan or other acceptable cost sharing method in accordance with the Cattlemen's Beef Board *Guidelines for Qualified State Beef Councils*.

Views of Responsible Officials and Planned Corrective Action:

The South Carolina Beef Council (the Beef Council) will establish and implement a cost sharing method/ allocation plan in accordance with Cattlemen's Beef Board guidelines. The plan will be shared with the South Carolina Department of Agriculture Human Resources and Finance departments to ensure that expenditures are allocated correctly.

2020-002: Allowable Use of Checkoff Funds

Condition:

The Beef Council transferred \$25,000 from the Federal checkoff program to the State checkoff program which is not allowed under the Cattlemen's Beef Board *Guidelines for Qualified State Beef Councils* (the *Guidelines*) and, in essence, the *Beef Promotion and Research Act of 1985* (the "Act") and the *Beef Promotion and Research Order* (the "Order").

Context:

According to Beef Council staff the transfer was made to temporarily cover revenue shortfalls in the State checkoff program caused by the payment of a large promotional campaign.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
BEEF COUNCIL
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Cause:

The Beef Council did not properly monitor its cash availability.

Effect:

The transfer and subsequent use of funds is not considered an allowable use of checkoff funds; therefore, the Beef Council is not in compliance with the provisions of the *Act* and the *Order* relative to the use of funds collected by the Beef Council insofar as they relate to accounting matters.

Criteria:

The *Guidelines* state that Qualified State Beef Councils (QSBC's) must use funds collected under the *Act* and the *Order* for allowable activities. Therefore, QSBC's must have processes and procedures in place to ensure that checkoff funds are spent only on eligible activities. *Guidelines* also state that QSBC's should have adequate reserves in place to mitigate the risk of revenue shortfalls. If a QSBC does not have adequate reserves, then a QSBC should have a procedure for reducing project funding to the level of revised revenue projections in the event of a revenue shortfall.

Recommendation:

We recommend the Beef Council reimburse the Federal checkoff program for the funds used in the unallowable transfer. We also recommend the Beef Council establish written procedures to properly monitor cash balances throughout the fiscal year and to ensure checkoff funds are spent only on eligible activities.

Views of Responsible Officials and Planned Corrective Action:

The Beef Council will reimburse the Federal checkoff program \$25,000 from the State checkoff program. The Beef Council will also follow Cattlemen's Beef Board guidelines to develop a budget process, and to ensure that the budget is reviewed at least quarterly to ensure an accurate representation of budgeted dollars.

2020-003: Remittance of Checkoff Assessments to Other States

Condition:

The Beef Council did not remit checkoff assessments to other states in a timely manner in accordance with the *Beef Promotion and Research Order* and the Cattlemen's Beef Board *Collections Compliance Manual*.

Context:

We tested two monthly assessment forms for compliance and determined the Beef Council did not remit checkoff funds due to three states in a timely manner.

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YEAR ENDED JUNE 30, 2020

Cause:

The Beef Council did not properly reconcile supporting records of remittances made to other states to expenditure reports on a monthly basis.

Effect:

The Beef Council is not in compliance with the *Beef Promotion and Research Order* and the Cattlemen's Beef Board *Collections Compliance Manual*.

Criteria:

In accordance with the *Beef Promotion and Research Order*, the Cattlemen's Beef Board *Collections Compliance Manual* states that Qualified State Beef Councils (QSBC's) receiving checkoff dollars on cattle originating from other states must remit those dollars to the state of origin by the 15th of the month following the calendar month in which collecting persons remitted the assessments.

Recommendation:

We recommend the Beef Council establish written procedures to properly monitor checkoff assessments payable to other states.

Views of Responsible Officials and Planned Corrective Action:

The Beef Council will remit the proper assessments to the states in question. The Beef Council will also request the Accounts Payable department of the South Carolina Department of Agriculture provide to us a monthly report of beef assessments paid to State of Origin sources from the previous 30 day cycle. We will review this report to ensure monthly checkoff funds are properly remitted to other states.