OKLAHOMA DEPARTMENT OF AGRICULTURE, FOOD, AND FORESTRY

REPORT ON AGREED-UPON PROCEDURES

JULY 1, 2004 THROUGH DECEMBER 31, 2005

JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR
Oklahoma Department of Agriculture, Food, and Forestry

Agreed-upon Procedures Report

For the Period
July 1, 2004 through December 31, 2005
June 21, 2006

TO THE BOARD MEMBERS OF THE DEPARTMENT OF AGRICULTURE, FOOD, AND FORESTRY

Transmitted herewith is the agreed-upon procedures report for the Department of Agriculture, Food, and Forestry. The procedures we performed were conducted pursuant to 74 O.S., §212.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency’s staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

JEFF A. McMAHAN
State Auditor and Inspector
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Mission Statement

The Oklahoma Department of Agriculture, Food, and Forestry’s mission is:

1. To increase the value of agriculture, forestry, and enhance rural communities by promoting and developing the State’s food and fiber resources for the benefit of the state economy and its citizens;
2. To protect the public’s health and safety and property;
3. To preserve Oklahoma’s natural resources and environment for all the state’s citizens.

Board Members

Terry Peach.............................................................................................................................. President
Don E. Britton............................................................................................................................... Member
Jimmie Draper.......................................................................................................................... Member
David Holcombe....................................................................................................................... Member
Bruce Price................................................................................................................................. Member

Key Staff

Terry Peach.......................................................................................................................... Commissioner and Secretary of Agriculture
Amber Lawles.......................................................................................................................... Associate Commissioner
Lynn Davis............................................................................................................................... Assistant Commissioner
INDEPENDENT ACCOUNTANT’S REPORT
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma Department of Agriculture, Food, and Forestry, solely to assist you in evaluating your internal controls over the receipt and disbursement process and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2004 through December 31, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. 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.

1. We compared the Department’s internal controls over receipts and disbursements with the following criteria:
   - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
   - Receipts were issued for cash and/or checks received;
   - Incoming checks were restrictively endorsed upon receipt;
   - Receipts not deposited daily were safeguarded;
   - Voided receipts were retained;
   - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
   - Disbursements were supported by an original invoice;
   - Timesheets were prepared by employees and approved by supervisory personnel;

   Effective internal controls include the issuance of receipts to cash customers at the time that the cash is received from the customer.

   During the walk through of the internal controls, it was noted, that the cash receipts were not being created until the deposit was being prepared.

   We recommend that the cash receipts be issued to the cash customers at the time that the cash is received.

Views of Responsible Official(s)
Contact Person: Jeannette Limke, Comptroller
Anticipated Completion Date: 06/30/2006
Corrective Action Planned: To provide better controls when cash is received in the mail, supervisor will be notified, a numbered receipt will be written immediately by the supervisor and will be verified by a second person in the office. The receipt will be mailed to the customer. If the cash is received in person, the numbered receipt will be written immediately and given to the customer.
Oklahoma State Statute 62 O.S. § 7.1 states in part:

\[ \ldots \text{c. All checks received must be restrictively endorsed immediately upon receipt...} \]

During the walk through of the internal controls, it was noted, that the checks are not being restrictively endorsed immediately upon receipt. The checks are being endorsed as the deposit is being prepared.

We recommend that checks be restrictively endorsed immediately upon receipt by the first individual who handles the check after receiving it from the client to ensure safeguarding of the agency’s assets.

**Views of Responsible Official(s)**

*Contact Person:* Jeannette Limke, Comptroller

*Anticipated Completion Date:* 06/30/2006

*Corrective Action Planned:* Notification will be sent to all divisions and locations that all checks received will be endorsed immediately when received, either by mail or in person.

With respect to the other procedures applied, there were no findings.

2. We randomly selected 20 deposits and:
   a. Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day.
   b. Examined receipts to determine if they were pre-numbered and issued in numerical order.
   c. Agreed cash/check composition of deposits to the receipts issued.
   d. Agreed the total receipts issued to the deposit slip.
   e. Inspected agency receipts to determine whether receipts of $100 or more were deposited on the same banking day as received.
   f. Inspected agency receipts to determine whether receipts of less than $100 were deposited on the next business day when accumulated receipts equaled $100 or after five business days, whichever occurred first.
   g. Inspected agency receipts to determine whether receipts were safeguarded.
   h. Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
   i. Compared the nature of the deposit to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

3. We randomly selected 60 vouchers and:
   - Compared the voucher amount and payee to the invoice amount and payee;
   - Compared the voucher amount and payee to the CORE system;
   - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
   - Compared the nature of the purchase to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

4. We compared salaries set by statute to the actual salary paid to determine the statutory limit was not exceeded.

There were no findings as a result of applying the procedures.

5. We randomly selected 10% of the employees who appeared on the December 2005 payroll but not on the June 2004 payroll and observed the initial “Request for Personnel Action” (OPM-14) or equivalent form to determine it was signed by the appointing authority.
There were no findings as a result of applying the procedures.

6. We randomly selected 10% of the employees who appeared on the June 2004 payroll but not on the December 2005 payroll and:
   - Observed the final “Request for Personnel Action” (OPM-14) or equivalent form to determine it was signed by the appointing authority.
   - Observed the main payroll funding sheet for the month subsequent to termination to determine employee no longer appeared.

There were no findings as a result of applying the procedures.

7. We randomly selected 10% of the employees whose gross salary at December 2005 had increased since June 2004 (excluding legislative pay raises) and observed the “Request for Personnel Action” (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

8. We randomly selected 10% (but no more than 20) of the employees from the December 2005 payroll and agreed the amount paid to the “Request for Personnel Action” (OPM-14) or equivalent form that was in effect for December 2005.

There were no findings as a result of applying the procedures.

9. We compared the Department’s internal controls over purchase cards with the following criteria:
   - Purchase card policies and procedures were incorporated into the Department’s policies and procedures;
   - Purchase card Administrator, designated back-up Administrator, and Approving Official were established;
   - Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form;
   - Cardholders submitted monthly transaction logs with supporting documentation which were reviewed and approved by the appropriate personnel;
   - Mandatory categories of controls and limits were established for each purchase card, i.e. credit limit, single purchase limit, and Merchant Category Code Group;
   - Controls were established to ensure that purchase cards are not used for prohibited purchases, i.e. travel, cash advances, motor fuel, etc...;
   - Duties, control responsibilities, and the appropriate channels of communication were established and communicated to purchase cardholders to report suspected improprieties regarding purchase card usage.

The Department of Central Services State of Oklahoma Purchase Card Procedures § 1.6 states:

…State entity p/card procedures shall be made a part of their internal purchasing procedures. State entities must submit their revised internal purchasing procedures to the Audit Director of the Department of Central Services within 6 months of completing the program implementation process...

The Department has not included p/card procedures as part of their internal purchasing procedures.

We recommend that the Department include p/card procedures as part of their internal purchasing procedures and submit their revised internal purchasing procedures to the Audit Director of the Department of Central Services for approval.

Views of Responsible Official(s)
Contact Person: Jeannette Limke, Comptroller
Anticipated Completion Date: When Approved
Corrective Action Planned: Our Agency Purchasing Procedures and our Agency P-Card Procedures were sent to Keith Gentry, at DCS, for review on May 22, 2006.

Auditor Response: Keith Gentry is a program manager for DCS. In the future, the Department should ensure that changes in their purchasing procedures are submitted directly to the Audit Director of the Department of Central Services in accordance with DCS policies and procedures.

With respect to the other procedures applied, there were no findings.

10. We identified employees that are purchase card holders and determined the Department retained the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement.

There were no findings as a result of applying the procedures.

11. We examined all purchase card transactions to determine:
   - A credit limit (dollar amount per cycle) was established for each cardholder;
   - The dollar amount of each transaction did not exceed the single purchase limit of $2,500;
   - Each purchase card was assigned an approved Merchant Category Code Group;
   - Any purchases from the same vendor on the same date for the same item, and whether in the aggregate, the card purchase limit was exceeded (i.e. split purchasing).

There were no findings as a result of applying the procedures.

12. We randomly selected 60 of the Department’s purchase card transactions and:
   - Determined transactions were not for prohibited purchases:
     - Travel including, but not limited to, transportation, entertainment, food and beverages, travel agencies, and lodging.
     - Cash, cash advances, automatic teller machines (ATM).
     - Any transaction or series of transactions, which exceed the limits established on the individual purchase card.
     - Motor fuel or fluids.
     - Gift certificates.
   - Inspected transaction logs to determine they were supported by receipts and/or other supporting documentation and the cardholder and approving official reconciled the supporting documentation to the monthly memo statement;
   - Reviewed transaction receipts to determine if the use of the purchase card was limited to the employee whose name is embossed on the card;
   - Examined transaction logs to determine the log was reviewed and approved (signed) by the cardholder and the approving official;
   - Reviewed receipts and/or other supporting documentation to determine they were annotated “Received”, signed, and dated by the receiving employee;
   - Examined the receipt and/or supporting documentation to determine state sales tax was not charged during the transaction;
   - Verified with the Department of Central Service that the Purchase card Administrators, back-up Administrators, Authorized Signers, Approving Officials, and Cardholders have successfully completed the Purchase Card Training conducted by the Department of Central Services prior to being issued purchase cards;
   - Inspected transactions to determine if merchant preference was used by the Department for certain merchants or types of contracts, i.e. statewide contracts;
   - Determined documents were retained in accordance with the Department’s procedures;
   - Compared the nature of the purchase to the Department’s mission for consistency.

The Department of Central Services State of Oklahoma Purchase Card Procedures § 6.5 states:
Receipts shall be obtained for purchases...If a receipt is not furnished by the merchant, an order confirmation, confirmation number, or packing slip should be obtained. If neither a receipt, confirmation information, nor packing slip is available for a transaction, documentation shall be attached to the transaction log noting all attempts made to obtain a receipt from the merchant...If the receipt is lost, the cardholder shall note the loss on the transaction log and complete a Lost Receipt Report. The Lost Receipt Report shall be included in the cardholder’s reconciliation submission...

Two of the 60 purchase card transactions included in the testwork did not include a receipt or equivalent documentation.

We recommend that the Department ensure that receipts or equivalent documentation is obtained for each purchase card transaction.

Views of Responsible Official(s)

Contact Person: Jeannette Limke, Comptroller
Anticipated Completion Date: 06/30/2006
Corrective Action Planned: It is the policy of this department that receipts or equivalent documentation is obtained for each purchase card transaction. We will contact the cardholders to reinforce the policy and make every effort to retrieve a copy of the missing receipts.

The Department of Central Services State of Oklahoma Purchase Card Procedures § 6.9.1 states:

...Regular p/card, Statewide Contract p/card, and Travel p/card holders shall obtain an electronically generated memo statement upon closing of the bank’s monthly billing cycle from the Pathway Net System...In reconciling the statement, cardholders should use appropriate documents (i.e., transaction log, purchase receipts, receiving documents, credit receipts) to verify that purchases and returns are accurately listed on the memo statement...

One of the 60 purchase card transactions included in the testwork was not included on the transaction log. There was a receipt for the transaction and it was included on the memo statement. However, the transaction log was not reconciled to the memo statement.

We recommend that the Department ensure that all transactions are included on the transaction log and that the transaction logs be reconciled to the memo statements.

Views of Responsible Official(s)

Contact Person: Jeannette Limke, Comptroller
Anticipated Completion Date: 06/30/2006
Corrective Action Planned: It is the policy of this department that all transactions be reconciled on the transaction log and the memo statement. I will notify the cardholder of the discrepancy and obtain in writing, for the file, an explanation of the error.

The Department of Central Services State of Oklahoma Purchase Card Procedures § 6.2.5 states:

P/card purchases shall comply with the following preferences for certain merchants of types of contracts. The following are listed in the order of preference.

6.2.5.1 State Use Committee: State entities shall make p/card purchases from merchants on the State Use Committee procurement schedule unless the State Use Contracting Officer has issued a waiver to the entity prior to the purchase. State Use Committee statewide contracts are mandatory for use. State entities shall reference the State Use
Committee procurement schedule to ensure p/card purchases are pursuant to 74 O.S. § 3007.

6.2.5.2 Oklahoma Corrections Industries (OCI): State entities shall make purchases from OCI pursuant to 57 O.S. § 549.1, if the vendor is deemed lowest and best.

6.2.5.3 Mandatory statewide contracts: State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.

Nine of the 60 purchase card transactions included in the testwork were for items that were available through a non-mandatory statewide contract; however there was no documentation as to why they were not purchased through statewide contract. Four of the 60 purchase card transactions included in the testwork were for items that were available through OCI; however there was no documentation as to why they were not purchased through OCI. Four of the 60 purchase card transactions included in the testwork were for items that were available through merchants on the State Use Committee or on mandatory statewide contracts; however there was no documentation as to why they were not purchased through the appropriate merchants.

We recommend that the Department ensure that all purchase card holders are aware of the merchant preferences and have access to the State Use Committee procurement schedule and the mandatory statewide contracts.

Views of Responsible Official(s)
Contact Person: Jeannette Limke, Comptroller
Anticipated Completion Date: 06/30/2006
Corrective Action Planned: Notification will be sent to all cardholders to remind them of the merchant preferences and the process to access the DCS website containing the information on items available through State Use Contracts and Mandatory statewide contracts. Procedures to obtain documentation as to why items were not purchased through the appropriating merchants will be provided to all cardholders in accordance with Central Purchasing Act.

With respect to the other procedures applied, there were no findings.

We were not engaged to, and did not; conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, and disbursements for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have also compiled a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system, which is presented in the “Other Information” section. The schedule, compiled for fiscal year 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institution of Certified Public Accountants, has been included for informational purposes only. A compilation is limited to presenting financial information that is the representation of management. We have not audited or reviewed the accompanying Schedule of Receipts, Disbursements and Changes in Cash, and accordingly, do not express an opinion or any other form of assurance on it.
This report is intended solely for the information and use of management of the Oklahoma Department of Agriculture, Food, and Forestry and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

JEFF A. McMAHAN
State Auditor and Inspector

May 19, 2006
Other Information
Oklahoma Department of Agriculture, Food, and Forestry
Schedule of Receipts, Disbursements, and Changes in Cash
For the Fiscal Year Ending June 30, 2005
(UNAUDITED)

**RECEIPTS:**
- Licenses, Permits, and Fees $ 4,845,923
- Federal Grants 5,501,258
- Appropriations 24,231,030
- Other 1,627,918
- **Total Receipts** 36,206,109

**DISBURSEMENTS:**
- Salary and Benefits 20,463,329
- Professional Services 1,933,872
- Misc. Admin. 4,251,102
- Prop, Furn, Equip, and Related Debt 1,694,081
- Gen Asst, Awds, Prog-Directed 6,574,030
- Other 730,950
- **Total Disbursements** 36,115,039

**RECEIPTS OVER (UNDER) DISBURSEMENTS** 91,070

**CASH--Beginning of Year** 1,694,081

**CASH--End of Year** $ 1,785,151

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Solely for the information and use by the management of Oklahoma Department of Agriculture, Food, and Forestry and not intended to be and should not be used by any other party. See Accountants Report.