



OKLAHOMA DEPARTMENT OF AGRICULTURE, FOOD AND FORESTRY

Operational Audit

For the Period July 1, 2014 through June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Department of Agriculture, Food and Forestry**

**For the Period
July 1, 2014 through June 30, 2020**



Cindy Byrd, CPA | State Auditor & Inspector

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June 7, 2021

TO THE OKLAHOMA STATE BOARD OF AGRICULTURE

We present the audit report of the Oklahoma Department of Agriculture, Food and Forestry for the period July 1, 2014 through June 30, 2020. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is 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.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**Oklahoma Department of Agriculture, Food and Forestry
Operational Audit**

Background

The Oklahoma Department of Agriculture, Food, and Forestry (Department) was created in 1907. It has since branched into services such as animal and plant disease control, crop and livestock market reporting, agricultural product marketing, laboratory services, water quality, animal damage control, and forestry.

Oversight is provided by a five-member Board appointed by the Governor with the advice and consent of the Senate. The Commissioner serves as the Board’s president. Four members are appointed from within and represent the agricultural district established by 2 O.S. § 2.1.B. One member is appointed from the state at large.

Board members as of May 2021 are:

Blayne Arthur	Commissioner
Clay Burtrum.....	Member
Joe Farris.....	Member
Brent Bolen.....	Member
Nocona Cook	Member

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The following table summarizes the Department's sources and uses of funds for fiscal years 2019 and 2020 (July 1, 2018 through June 30, 2020).

Sources and Uses of Funds for FY 2019 and FY 2020

	2019	2020
Sources:		
Appropriations	\$ 22,826,526	\$ 25,906,002
Other Revenues	11,979,165	7,482,930
Licenses, Permits, Fees	10,509,565	10,029,960
Income from Money and Property	501,102	454,194
Taxes	376,664	376,892
Fines, Forfeits, Penalties	123,310	95,680
Total Sources	\$ 46,316,332	\$ 44,345,658
Uses:		
Personnel Services	\$ 22,660,807	\$ 24,237,087
Assistance, Payments to Local Govn'ts	7,017,255	7,537,339
Professional Services	4,584,675	2,327,759
Administrative Expenses	3,510,769	3,565,278
Property, Furniture, Equipment	3,102,451	4,832,656
Travel	505,459	512,641
Transfers and Other Disbursements	111,800	-
Total Uses	\$ 41,493,216	\$ 43,012,760

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

Oklahoma Department of Agriculture, Food and Forestry Operational Audit

Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through June 30, 2020. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Department's personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Review of revenue, expenditure, and asset-related data from the statewide accounting system and information gathered from Department personnel to assess the related financial processes and trends for any notable risks
- Assessment of deposit risk by division incorporating the types of revenues received (e.g. cash, check, or credit card) and whether there is a remote location where funds are receipted
- Discussion of management's processes for review and approval of expenditure reports
- Review of a selection of purchase orders for purchase card transactions and contracts over \$50,000
- Review of a comprehensive list of personnel actions from the statewide accounting system to assess changes that had a financial impact during the audit period
- Review of documents supporting refunds issued by the Department

Two objectives were developed as a result of the procedures performed, as discussed in the next section. No other significant risks or findings were identified.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE I Determine whether effective internal control activities are in place to ensure funds physically received in the Consumer Protection division are deposited, in line with GAO *Standards for Internal Control* and the Statewide Accounting Manual.

Conclusion We determined that effective internal control activities are not in place to ensure funds physically received in the Consumer Protection division are deposited. See further discussion in the next section.

To accomplish our objective, we performed the following:

- Documented our understanding of the receipting and licensing processes. We spoke with management and staff members in the Consumer Protection division and in Administration to gain an understanding of their individual processes, the tracking system used for licensing and discussed the reconciliation occurring between receipts and deposits.
- Compared the Department’s process to governmental internal control standards outlined in the GAO Standards for Internal Control and Oklahoma’s Statewide Accounting Manual.

FINDINGS AND RECOMMENDATIONS

Licensing Activity Not Formally Reconciled to Deposits

Repeat Finding

The Consumer Protection division’s physical receipts (primarily checks) are received by the Finance office, who makes the deposits. The related paperwork is forwarded to Consumer Protection program administrators, who make entries in the division’s database and issue licenses and permits. Consumer Protection staff have access to the statewide accounting system to confirm payment has been received before licenses or permits are issued, but this is not a formal or documented review.

Monthly, the director of the division informally reconciles the licensing and permit activity from the database to a revenue report from the statewide accounting system provided by Finance. However, because the director does not maintain documentation of this review, we were unable to confirm it occurred throughout the audit period.

Without a reliable reconciliation or consistent confirmation of deposit, it’s possible the Finance employees handling the payments could make an error or misappropriate a payment, or program administrators could make an error, without detection.

The GAO *Standards for Internal Control* emphasize the following.

- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. In

addition, management should remediate identified internal control deficiencies on a timely basis.

- Management should implement control activities through policies and should establish control activities that are built into business processes and employees' day-to-day activities.

In addition, the Office of Management and Enterprise Services (OMES) Statewide Accounting Manual highlights the importance of management being involved in documenting, reviewing and approving transactions, reports, and reconciliations.

Recommendation

The informal review processes reportedly in place in the Consumer Protection division sound very promising. We recommend this division document staff's confirmation of receipts in the statewide accounting system and the director's monthly reconciliation. This would not only allow outside parties such as auditors to confirm these processes but would provide assurance and documentation for Department management and other stakeholders.

These reviews should also be formalized in written policies or procedures to provide instruction and consistency among staff, and overall accountability.

Views of Responsible Officials

Consumer Protection Services personnel will perform weekly and/or monthly reconciliations to PeopleSoft revenue reports which will be signed by the appropriate division personnel. The procedures for this process will be documented and provided to all the necessary staff.

OBJECTIVE II

Determine whether inventory counts were conducted during the audit period by personnel independent of maintaining inventory records, in accordance with *GAO Standards for Internal Control* and the Statewide Accounting Manual.

Conclusion

We determined that independent, documented inventory counts were not conducted during the audit period. See further discussion in the next section.

To accomplish our objective, we performed the following:

- Documented our understanding of the inventory process through discussions with staff and review of relevant records.
- Compared this information to our prior recommendations and applicable guidance from the *GAO Standards for Internal Control* and the Statewide Accounting Manual, as detailed in our finding.
- Evaluated management’s design of inventory control activities to achieve objectives and respond to risks.

FINDINGS AND RECOMMENDATIONS

No Independent Formal Inventory Count Performed

Repeat Finding

It was reported by management inventory counts were not formally conducted during the audit period due to low staffing levels in the administration division. In 2019 a new comptroller was hired and oversaw the IT inventory count that was an effort to clean up the Department’s inventory records. Non-IT items were not part of this count, and the results were not formally reviewed or approved. Management discovered during the inventory count process that multiple individuals within the Department have the capability to add or delete items from the inventory records, which creates the opportunity for those individuals to take an item or make errors without detection. Without a reliable and independent inventory count, the records may be inaccurate, and lost or stolen items are less likely to be identified.

The *GAO Standards for Internal Control* emphasize the following.

- Assets should be periodically counted and compared to control records.
- Management must design an internal control system to provide reasonable assurance of prevention or detection of unauthorized acquisition, use, or disposition of assets.
- Overall, management is responsible for designing control activities to respond to risks, and for taking adequate and timely actions to correct deficiencies reported by external auditors.

In addition, the OMES Statewide Accounting Manual states, “Internal controls should ensure individuals responsible for monitoring inventories should not have the authority to authorize withdrawals of items maintained in inventory, and individuals performing physical inventory counts should not be involved in maintaining inventory records.”

The comptroller is in the process of developing procedures that include limiting access to the inventory records and putting internal controls in place over the maintenance of records and inventory counts.

Recommendation

After the next full inventory count has been performed, including IT and non-IT items, to confirm the current records are accurate and complete, we recommend regular counts be conducted as appropriate based on the management or the board’s own assessment of the inventory risks.

The results of each inventory count, and any subsequent modifications to inventory records, should be reviewed and approved by a member of management who is independent of maintaining inventory records and performing the count. Documentation of the review should be maintained. The reviewer should also ensure that any significant purchases are reflected in the records and that any items removed are supported by approved surplus documentation.

In addition, the inventory records should only be accessible to the necessary personnel.

Views of Responsible Officials

Physical inventory counts will be regularly performed by designated division staff and reported to Finance. The Comptroller will oversee these counts. The inventory counts will be documented and submitted to the Director of Administrative Services for his review and approval. Documentation of all inventory counts will be maintained by Finance.

Finance staff will maintain the inventory database. Division directors or their designated staff will work with Finance on the maintenance of their division’s inventory and updates to the agencies inventory database. Before any items are removed from the agency’s inventory database, they must be approved by OMES State Surplus.

Administrator access, which includes system permissions to add, update, and remove items from the agency’s inventory database, will be limited to the designated Finance staff.

Division access will not include system permissions to remove assets from the agency inventory database. However, their access will allow them to add/update records for their division.

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