

OKLAHOMA BOLL WEEVIL ERADICATION ORGANIZATION

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Boll Weevil Eradication Organization**

**For the Period
January 1, 2006 through December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

August 25, 2008

TO THE BOARD OF THE OKLAHOMA
BOLL WEEVIL ERADICATION ORGANIZATION

Pursuant to 2 O.S. § 3-50.7, transmitted herewith is the audit report for the Oklahoma Boll Weevil Eradication Organization for the period January 1, 2006 through December 31, 2007. 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,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

Mission Statement

The goal and purpose of the Oklahoma Boll Weevil Eradication Organization is to design, implement, and complete a boll weevil eradication program that is economical, producer friendly, and beneficial to the State of Oklahoma.

Board Members

Jerry McKinley	Chairman
Dan Vinyard	Vice-Chairman
Phil Bohl	Secretary
Ron Whittenberg	Treasurer
Shelby Long	Member

Key Staff

Joe Harris	Executive Director
John Henderson	Assistant Director
Amanda Montgomery	Business and Finance Officer



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

TO THE BOARD OF THE OKLAHOMA
BOLL WEEVIL ERADICATION ORGANIZATION

We have audited the Oklahoma Boll Weevil Eradication Organization (Organization) for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Organization's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Organization complied with the Department of Central Services' (DCS) Purchase Card Procedures;
- Recommendations included in prior engagements were implemented.

As part of our audit, we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

Michelle R. Day

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

August 11, 2008

Background

The function of the Oklahoma Boll Weevil Eradication Organization (Organization) is to eradicate the boll weevil from Oklahoma cotton in the most effective and efficient manner possible. By law, producer assessments fund a percentage of the program. The Organization also receives federal funding from the USDA. The Commission's operations are governed by 2 O.S. § 3-50.1 through 3-52.

Oversight is provided by a five-member Board of cotton growers, each of whom is elected from the five separate districts established by the initial Board.

Table 1 summarizes the Organization's sources and uses of funds for fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007

Sources:	2006	2007
Regulatory Boards Fees and Assessments on Commodity Sale	\$3,496,659	\$951,266
Interest on Investments	52,495	69,054
Federal Reimbursements	320,000	504,000
Sale of Surplus Property	63,960	86,777
Other	299	388
Total Sources	<u>\$3,933,413</u>	<u>\$1,611,485</u>
Uses:		
Personnel Services	\$924,346	\$911,301
Professional Services	58,217	46,369
Travel	8,417	11,553
Miscellaneous Administrative Expenses	371,182	319,904
Office Furniture and Equipment	37,088	231,633
Refunds, Idemnities, Restitution	18,542	3,670
Loans, Taxes, Other Disbursements	<u>3,459,720</u>	<u>0</u>
Total Uses	<u>\$4,877,512</u>	<u>\$1,524,430</u>

Source: Oklahoma CORE Accounting System.

Objective 1 – Determine if the Organization's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Organization's internal controls generally provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations. However, a few areas, as noted below, need to be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1.C - **depositing requirements for agency clearing accounts and agency special accounts**;
- Documented internal controls related to the revenue, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if checks were endorsed immediately upon receipt;

- Determining if receipts were stored in a secure location prior to deposit;
- Determining if the person who prepared the deposit was independent of the receipting process;
- Reviewing 40 deposits from the period to ensure the deposit was properly supported by prenumbered receipts;
- Reviewing 40 deposits from the period to ensure the total of receipts issued agreed to the deposit slip;
- Reviewing 40 deposits from the period to ensure the monies were deposited in accordance with 62 O.S. § 7.1.C;
- Reviewing 40 deposits from the period to ensure the deposit was correctly posted into CORE within one day of being deposited at the bank;
- Reviewing 40 deposits from the period to ensure the deposit slip agreed to the CORE deposits report;
- Determining the Commission's clearing account was reconciled on a monthly basis by a person independent of the cash receipting process and was reviewed by someone other than the preparer;
- Reviewing three OSF-Form 11 reconciliations to ensure the reconciliations were properly prepared, properly supported, mathematically accurate, prepared in a timely manner, and that funds were transferred from the clearing account to the treasury fund;
- Reviewing 25 expenditure claims to ensure they were properly authorized, appeared reasonable for the Organization's mission, agreed with the invoice, purchase order, and receiving reports (when applicable), the correct account codes were used, the correct amounts were recorded, and the expenditures were properly supported;
- Determining if an annual inventory count was performed;
- Selecting 15 assets from the inventory listing to verify their existence, ensuring they were identified as property of the State of Oklahoma, and ensuring the identifying numbers on the listing matched those on the asset;
- Selecting 15 assets from various locations to verify they were identified on the inventory listing, ensuring they were identified as property of the State of Oklahoma, and ensuring the identifying numbers on the asset traced and agreed to those listed on the inventory list;
- Inspecting the Frederick, Altus, and Hobart offices to ensure inventory was safeguarded against theft or loss when not in use;
- Scanning the inventory listing to verify it contained sufficient information to identify each item;
- Reviewing all employee timesheets for 3 months to ensure timesheets were reviewed and approved.

Observations

Segregation of Duties

An effective internal control system provides for adequate segregation of duties. Based upon discussion with the Organization's Business and Finance Officer, she is responsible for:

- Preparing the deposit;
- Posting the deposit to CORE;
- Preparing the clearing account reconciliation, which is not reviewed or approved;
- Submitting the clearing account reconciliation.

Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Organization segregate the responsibilities of preparing and posting deposits and segregate the deposit reconciliation responsibilities from the deposit preparation responsibilities. The Organization should also implement procedures to provide for an independent timely review of the OSF Form 11 reconciliation.

Views of Responsible Officials: We will have the Agency Director review and approve the OSF Form 11. Agency Director will also reconcile deposits.

Inventory – Items Not Tagged

A critical aspect of effective inventory management is ensuring assets are identifiable as “Property of the State of Oklahoma.” OAC 580: 70-5-1, Tangible Asset Identification, states that “(a) An agency shall affix a unique identifier as an inventory tag to all tangible assets. (b) Inventory tags shall be a durable material designed to withstand physical elements the tag may endure.”

During our procedures, we noted four items (ATV’s at the Altus location) were not tagged and identified as “Property of the State of Oklahoma.”

Failure to properly identify inventory as property of the State of Oklahoma could result in a loss or misappropriation of assets.

Recommendation: We recommend the Organization ensure an inventory tag is affixed to all inventory items and that the tags are placed in locations on the items where they are least likely to come off. We also recommend the Organization replace missing tags as needed.

Views of Responsible Officials: We will ensure employees notify inventory clerk when stickers are missing and replacement stickers will be issued.

Objective 2 – Determine if the Organization complied with DCS Purchase Card Procedures.

Conclusion

Based on the procedures performed, the Organization was in compliance with Department of Central Services (DCS) Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed DCS’ Purchase Card Procedures;
- Reviewed 10 Purchase Card transactions to determine whether:
 - The dollar amount of the transaction did not exceed the single purchase limit of \$2,500;
 - The transactions were not for split purchases;
 - The transactions were not for prohibited purchases;
 - The transactions appeared to be supported by receipts and/or other supporting documentation and reconciled to the supporting monthly memos;
 - The transactions were limited to purchases made by only the employee whose name is embossed on the card;
 - The transaction logs were reviewed and approved by the cardholder;
 - The memo statements were approved by the cardholder, and by the approving official;

- The receipts and/or other supporting documentation were annotated “Received”, signed, and dated by the receiving employee;
- The transactions did not include state sales tax;
- The Organization used merchant preference before making a transaction;
- The transactions appeared reasonable given the Organization’s mission.

Objective 3 – Determine if recommendations from prior engagements were implemented.

Conclusion

The prior period’s State Auditor and Inspector’s report contained four recommendations that were considered significant within the context of the audit objectives. It appears the Organization has not implemented recommendations to ensure duties are properly segregated nor recommendations to ensure inventory is properly tagged as property of the State of Oklahoma (see observations noted at Objective 1). The DCS Purchase Card Program Audit for the period of January 28, 2006 to January 29, 2007 contained three recommendations that were considered significant within the context of the audit objectives. It appears the organization has implemented these recommendations to ensure Purchase Card transactions are in compliance with Purchase Card procedures.

NOTE: The Office of the State Auditor’s report issued on July 10, 2006 and the Department of Central Services Purchase Card Program Audit should be read in conjunction with the observations noted below. The reports may be accessed at www.sai.state.ok.us and www.dcs.ok.gov.

Methodology

To achieve our objective, we performed the following:

- Documented and reviewed controls for the receipting and deposit process to determine if duties were being properly segregated (see observations noted at Objective 1);
- Determined if checks were endorsed immediately upon receipt;
- Reviewed 10 P-Card transactions to ensure they were in compliance with the P-Card procedures (see Objective 2).
- Determined if an inventory count was performed;
- Selected 15 assets from the inventory listing to verify their existence on the floor, ensured they were identified as property of the State of Oklahoma, and ensured the identifying numbers on the listing matched those on the asset (see observations noted at Objective 1);
- Selected 15 assets from various locations to verify they were identified on the inventory listing, ensured they were identified as property of the State of Oklahoma, and ensured the identifying numbers on the asset traced and agreed to those listed on the inventory list (see observations noted at Objective 1).



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