



OKLAHOMA BOLL WEEVIL ERADICATION ORGANIZATION

Operational Audit

For the Period January 1, 2017 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
January 1, 2017 through June 30, 2019**



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

October 7, 2020

TO THE BOLL WEEVIL ERADICATION ORGANIZATION:

We present the audit report of the Boll Weevil Eradication Organization for the period January 1, 2017 through June 30, 2019. 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 Boll Weevil Eradication Organization
Operational Audit

Background

The goal and purpose of Oklahoma Boll Weevil Eradication Organization (OBWEO or the Agency) is to design and implement boll weevil eradication and post-eradication maintenance and control programs that are economical, producer friendly, and beneficial to all segments of the cotton industry in Oklahoma. (The boll weevil is a beetle that feeds on cotton buds and flowers.)

The board of the Oklahoma Boll Weevil Eradication Organization is composed of five cotton growers from this state who are elected from the five separate districts established by the board and serve terms of three years.

Board members as of September 2020 are:

Dan Vinyard	President/Chairman
Garlon Riley	Member
Jimmy Smith	Member
Brad McKinley	Member
Phil Bohl	Member

Oklahoma Boll Weevil Eradication Organization
Operational Audit

The following table summarizes the Agency's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

	2018	2019
Sources:		
Fees/ Assessments*	\$ 830,000	\$ 1,375,873
Interest or Investments	27,385	52,505
Other Revenues	4,105	9,963
Total Sources	\$ 861,490	\$ 1,438,341
Uses:		
Personnel Expenses	\$ 346,796	\$ 296,565
Administrative Expenses	85,448	91,422
Property, Furniture, Equipment	53,816	89,634
Assistance, Payments to Local Govn'ts	-	117,521
Professional Services	17,432	19,463
Refunds, Indemnities, Restitution	1,500	-
Travel	212	544
Total Uses	\$ 505,204	\$ 615,149

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

*Full Source Name: Regulatory Boards Fees & Assessments on Commodity Sale

**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 January 1, 2017 through June 30, 2019. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and analysis of data from the statewide accounting system. Further details regarding our methodology are included in Appendix A.

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. Each of these components includes a subset of principles that are expected to be operating at government entities, and these are listed in Appendix B for your reference.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are effectively designed, implemented, and operating together in an integrated manner. As required by *Government Auditing Standards*², we have identified the aspects of internal control significant to each audit objective in this engagement and our assessments are detailed in Appendix B.

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>.

² *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

OBJECTIVE I Determine whether the fees receipted and deposited for cotton sales during the audit period reconcile to cotton production reported in the USDA-NASS Annual Cotton Review Report within a reasonable margin of error.

Conclusion Fees receipted and deposited for cotton sales during the audit period reconcile to the cotton production reported in the USDA-NASS Annual Cotton Review Report within a reasonable margin of error.

Scope and Methodology To accomplish our objectives, we performed the following:

- Discussed with Agency personnel to determine the process for collecting fees on cotton sales and the possible reasons for variances in timing and amount of cotton sale revenue, which include primarily the timing of harvests being sold and sales of harvested cotton to gins in neighboring states.
- Researched USDA reporting options that would provide us with reliable independent data about the cotton industry.
- Isolated Fee Assessment revenues using deposit data from the state-wide accounting system and reconciled that data to the USDA NSAA Annual Cotton Review harvested cotton data for the audit period. The overall variance was 6.3% or \$206,229 over a three-year period, which we found reasonable given the explanations for variance outlined above.

No findings were identified as a result of these procedures.

OBJECTIVE II Determine whether the Agency’s non-payroll expenditures were independently reviewed and approved in line with *GAO Standards for Internal Control*.

Conclusion While the Agency director is reportedly performing an independent review of expenditures, this process needs to be formalized to provide evidence it is occurring and in line with *GAO Standards for Internal Control*.

Scope and Methodology To accomplish our objective, we performed the following:

- Evaluated processes and identified significant internal controls related to non-payroll expenditures. Compared the significant control to governmental internal control standards outlined in the *Standards for Internal Control*. See results in the finding below.

FINDINGS AND RECOMMENDATIONS

Detailed Expenditure Review Is Not Documented

The Agency director stated that she reviews non-payroll expenditures using the 6-Digit Expenditure Detail Report from the State-Wide Accounting System and copies of the paid claims, then verbally notifies staff that expenditures have been reviewed. Because this review is not documented, we were unable to confirm it.

Although no evidence of inappropriate expenditures came to our attention, without a reliable, documented review of expenditures the Agency could be at risk for unauthorized expenditures being made³. Management is aware that there is room for improvement in this area and is open to improving the Agency’s process to address the risk.

According to *GAO Standards for Internal Control*, “Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.” The Standards also state that “if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.”

³ The Agency finance officer is responsible for submitting invoices for payment and the Office of Management Enterprise Services, Agency Business Services office pays the invoices and posts them to the state-wide accounting system. Due in part to the Agency’s small staff size, the director’s independent review is key in ensuring these payments were accurate and authorized.

The Agency has general written procedures for employees' work responsibilities relating to expenditures, but the policy is outdated. The agency is aware their procedures need to be updated.

Recommendation

We recommend the Agency formalize the expenditure review process that is reportedly in place. The director should continue to review a complete and reliable line-item detailed expenditure report, retaining documentation of her approval, such as a printed or electronic copy of the report bearing her signature and the date. The updated review process should be reflected in the Agency's policies and procedures.

Views of Responsible Officials

We concur with the finding of no reliable documentation review of expenditures. We will update our policy to initial the 6-Digit Expenditure Detail Report for review of expenditures.

APPENDIX A: Detailed Methodology

In gaining an understanding of the Agency and developing our objectives, in addition to routine discussions, surveys, analysis, and research, we performed the following:

- Reviewed revenue, expenditure, and asset-related data from the State-Wide Accounting System and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Reviewed the Agency's personnel actions in the State-Wide Accounting System to assess the changes that had a financial impact during the audit period.

We documented our understanding of the agency-wide components and underlying principles of internal controls significant to our objectives, as outlined further in Appendix B. In doing so, we obtained an internal control self-assessment completed by management and assessed the results, along with further discussions and review of documentation to verify and confirm as necessary. We analyzed the design and operating effectiveness of the significant principles and determined there is room for improvement relating to control activities, as addressed in our finding on page 5.

APPENDIX B: Internal Control Components and Principles

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objectives in this engagement, and notes whether those principles were found to be operating effectively. For those *not* operating effectively, further discussion and related recommendations are included in the report.

As recommended by *Government Auditing Standards* section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Significant to Audit Objective I	Operating Effectively?	Significant to Audit Objective II	Operating Effectively?
Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.				
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.				
2. The oversight body should oversee the entity’s internal control system.				
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.				
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.				
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.				
Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.				
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.				
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.			✓	Yes
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.				
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.				

**Oklahoma Boll Weevil Eradication Organization
Operational Audit**

Control Activities Component – Actions management establishes through policies and procedures to protect against risks.				
10. Management should design control activities to achieve objectives and respond to risks.			✓	No
11. Management should design the entity’s information system and related control activities to achieve objectives & respond to risks.				
12. Management should implement control activities through policies.			✓	No
Information and Communication Component – Quality information communicated and used to support the internal control system.				
13. Management should use quality information to achieve the entity’s objectives.	✓	Yes		
14. Management should internally communicate the necessary quality information to achieve the entity’s objectives.				
15. Management should externally communicate the necessary quality information to achieve the entity’s objectives.	✓	Yes		
Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.				
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.				
17. Management should remediate identified internal control deficiencies on a timely basis.				

The GAO emphasizes that the five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity’s internal control system.

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov