

**OKLAHOMA PEANUT COMMISSION
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

June 21, 2004

TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA

Transmitted herewith is the Oklahoma Peanut Commission Internal Control Report for the fiscal year ended June 30, 2003. By its nature, this report focuses on weaknesses in controls. This focus should not be understood to mean there are not also various strengths and accomplishments.

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

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 to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

**OKLAHOMA PEANUT COMMISSION
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**OKLAHOMA PEANUT COMMISSION
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

BOARD MEMBERS

<u>Name</u>		<u>Term Expires</u>
Joe Wilson*	Chairman, Appointed	2003
John Clay*	Vice-Chairman, Appointed	2004
Jesse Snyder*	Secretary, Appointed	2005
Phillip Myers	Member, Appointed	2004
Doyle Wilson	Member, Appointed	2003
Joel Hicks	Member, Appointed	2005

* Executive Committee Member

ADMINISTRATIVE STAFF

James M. (Mike) Kubicek
Executive Secretary



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

TO THE OKLAHOMA PEANUT COMMISSION

We have applied the procedures enumerated below to certain aspects of internal control for the period July 1, 2002 through June 30, 2003.

1. We reviewed the management internal controls over the cash receipting and depositing of funds.
2. We reviewed the management controls over fixed assets.
3. We reviewed the management controls over the recording of cash receipts, disbursement of funds, and reconciliation of funds.
4. We reviewed the Commission's policies and procedures regarding personnel and payroll, purchasing, budgeting, all business activities and test compliance with such policies and procedures.
5. We reviewed the management controls for adequate segregation of duties regarding authorization, recording, and custody.
6. We reviewed the management procedures and processes in relation to their statutory authority and legislative intent.

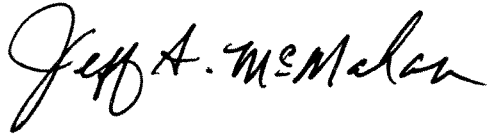
In addition to the procedures above, we also tested a sample of cash disbursements for propriety, reasonableness, and compliance with State purchasing regulations.

The purpose of these procedures was to identify the internal controls designed or developed by the Oklahoma Peanut Commission and to make recommendations in certain areas, and whether stated controls were operating as represented to us or if additional controls were necessary to reduce the risk of errors and irregularities.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the Agency's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Agency's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached comments and recommendations section of this report.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMAHAN". The signature is written in a cursive style with a large, prominent initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

June 21, 2004

COMMENTS AND RECOMMENDATIONS

Comment 2003-535-001

Criteria: Good internal controls provide that assets should be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

Condition: The Oklahoma Peanut Commission's (OPC) fixed assets are not properly tagged identifying them as property of the State of Oklahoma.

Effect: Fixed assets, which are not properly tagged, could result in misappropriation of assets.

Recommendation: We recommend the Oklahoma Peanut Commission affix an identification tag to fixed assets identifying them as property of the State of Oklahoma and include those identification tag numbers on the OPC fixed asset listing.

Management Corrective Action Plan

Contact Person: Mike Kubicek

Anticipated Completion Date: July 30, 2004

Corrective Action Planned: The agency will affix a unique identifier as an inventory tag to all tangible assets as outlined in Title 580:70-1-3 & 70-5-1; as authorized pursuant to the provisions of 74 O.S., Section 110.1 and the Administrative Procedures Act.

Comment 2003-535-002

Criteria: Good internal controls provide for adequate review of payroll records.

Condition: The Oklahoma Peanut Commission (OPC) has one (1) employee, the Executive Secretary. The Executive Secretary submits his hours worked and leave hours used to the Office of Personnel Management (OPM) on a monthly basis without review and approval of the OPC Board of Directors.

Effect: Time and leave records could be misstated.

Recommendation: We recommend the Executive Secretary's time and leave records be reviewed and approved by the OPC Board of Directors prior to submitting the payroll claim to OPM.

Management Corrective Action Plan

Contact Person: Mike Kubicek

Anticipated Completion Date: July 30, 2004

Corrective Action Planned: Annual agency payroll is approved by the OPC Board of Directors as part of the budget approval process prior to budgetary expenditure. In order to address segregated functions, agency procedure provides for the enlistment of the Office of Personnel Management (OPM) to prepare monthly payroll claims and leave reports (in accordance w/OPM formula and directives) prior to approval by the Agency Director. Claims are reviewed by the agency for accuracy prior to submission to the Office of State Finance (OSF) for processing and issuance. OPM designates their internal personnel to provide the referenced services and maintain agency leave records accrued/used. The agency's payroll internal control segregation procedures meet or exceed those of many known agencies. Management will request the OPC Board of Directors review this procedure/policy during their July, 2004 board meeting.

Comment 2003-535-003

Criteria: A component objective of an adequate internal control system is to provide for the accountability and security of assets. To ensure proper accounting and safeguarding of assets; the receiving, recording, custodial, and physical inventory functions should be segregated.

Condition: The Oklahoma Peanut Commission (OPC) has one (1) employee, the Executive Secretary. The Executive Secretary receives, records, has custodial accountability, and performs the annual physical inventory count of fixed assets.

Effect: Inadequate segregation of duties may allow errors or irregularities to occur and not be detected in a timely manner or in the normal course of business.

Recommendation: We recommend the OPC Board of Directors assign fixed asset recording and physical inventory functions to one of the OPC board members.

Management Corrective Action Plan

Contact Person: Mike Kubicek

Anticipated Completion Date: July 30,2004

Corrective Action Planned: Fixed assets of the Oklahoma Peanut Commission are properly recorded and accounted for on an annual schedule. Asset acquisition or disposal is rare to the agency due to its size and activity/program needs. The question of segregated functions and the assignment of those responsibilities to persons other than agency staff will be presented by management to the OPC Board of Directors for consideration at their July, 2004 board meeting.

Comment 2003-535-004

Criteria: A component objective of an adequate internal control system is to provide for the accountability of funds. To ensure proper accounting of revenues; the receiving, recording, deposit, and reconciliation functions should be segregated.

Condition: The Oklahoma Peanut Commission (OPC) has one (1) employee, the Executive Secretary. The Executive Secretary receives, records, deposits, and reconciles revenues.

Effect: Inadequate segregation of duties may allow errors or irregularities to occur and not be detected in a timely manner or in the normal course of business.

Recommendation: We recommend the OPC Board of Directors assign revenue recording and reconciliation functions to one of the OPC board members.

Management Corrective Action Plan

Contact Person: Mike Kubicek

Anticipated Completion Date: July 30,2004

Corrective Action Planned: Agency revenue is accepted via check or agency transfer only; no cash receipts are accepted. Acceptable revenue is properly receipted internally and deposited upon receipt with the Office of State Treasurer (OST). The agency enlisted the OST Cash Management program as a fiduciary of the agency funds. OST provides the agency with fund transfer and investment services followed by respective monthly/ytd activity reports for reconciliation by agency management; review and approval by the board. The OPC Board of Directors reviews and takes official action on revenue receipts and cash management balances at each official board meeting. Management will request the OPC Board of Directors review the adequacy of revenue internal control procedure/policy during their July, 2004 board meeting.

Comment 2003-535-005

Criteria: A component objective of an adequate internal control system is to provide for the accountability of funds. To ensure proper accounting of expenditures; the preparation, approval, recording, and reconciliation functions should be segregated.

Condition: The Oklahoma Peanut Commission (OPC) has one (1) employee, the Executive Secretary. The Executive Secretary prepares, approves, records, and reconciles expenditures.

Effect: Inadequate segregation of duties may allow errors or irregularities to occur and not be detected in a timely manner or in the normal course of business.

Recommendation: We recommend the OPC Board of Directors assign expenditure recording and reconciliation functions to one of the OPC board members.

Management Corrective Action Plan

Contact Person: Mike Kubicek

Anticipated Completion Date: July 30, 2004

Corrective Action Planned: The finance committee of the Oklahoma Peanut Commission meets annually to review expenditure needs for the next fiscal year and submits a recommendation to the full board for consideration. The OPC Board of Directors approves a detailed budget by program/activity and charges staff the responsibility to properly account for expenditures; including preparation, approval, recording, and reconciliation functions. Since the OPC is a designated "manual agency", the Office of State Finance (OSF) provides for segregated duties via entering submitted claims "in the system" for payment (after checking the claim for compliance with OSF procedures and board approved agency budget accounts/limits). Management presents the OPC Board of Directors with budget expenditure activity as part of the financial report for review prior to board meetings; approval of the financial report is duly recorded in board meeting minutes. Contracts for expenditure are reviewed and approved for activity by the OPC Board of Directors as part of the fiscal year budget. Management will request the OPC Board of directors review expenditure policy/procedure during their July, 2004 board meeting.