

OPERATIONAL AUDIT

OKLAHOMA DEPARTMENT OF AGRICULTURE, FOOD, AND FORESTRY

For the period July 1, 2012 through June 30, 2014



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

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

**For the Period
July 1, 2012 through June 30, 2014**



Oklahoma State Auditor & Inspector

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August 18, 2015

TO THE OKLAHOMA STATE BOARD OF AGRICULTURE

This is the audit report of the Oklahoma Department of Agriculture, Food, and Forestry for the period July 1, 2012 through June 30, 2014. 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 "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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Background

The Oklahoma Department of Agriculture, Food, and Forestry (ODAFF) 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. The Department's operations are governed by 2 O.S. § 2 and Title 35 of the Oklahoma Administrative Code.

As stated by the agency, their mission is to look at agriculture with a vision as to what it will be in the next one hundred years. The agency must increase the value of agriculture produce and enhance the value of life in the rural communities. The agency also must develop the state's food and fiber resources in a manner that will always protect consumer health and safety, natural resources, property, and the environment.

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 of such members shall be appointed from within and represent the agricultural district established by 2 O.S. § 2.1.B. One member shall be appointed from the state at large. Board members are appointed for terms of four years. The at-large member shall serve a term coterminous with that of the Governor.

Board members as of June 30, 2014 are:

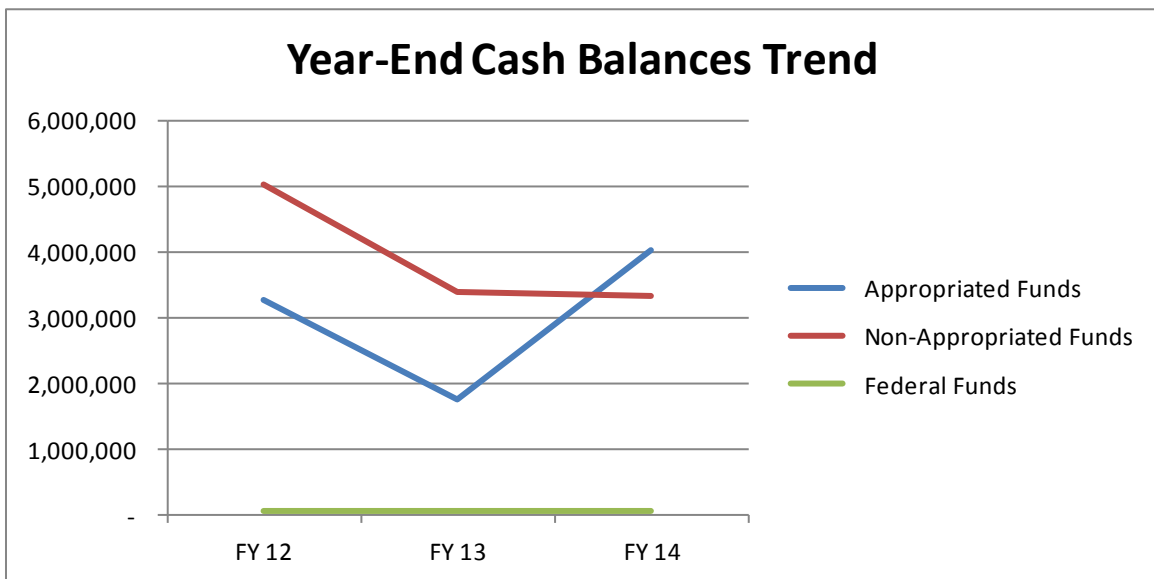
Jim Reese, Commissioner	Secretary
Ed Hurliman, Broken Bow	Member
Jay Franklin, Vinita.....	Member
Joe Farris, Taloga	Member
Karen Krehbiel, Hydro.	Member

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The following charts illustrate the Agency's primary funding sources, and where those funds are expended.¹

BUDGET TO ACTUAL COMPARISON						
	FY 2013			FY 2014		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
REVENUES						
General Appropriations	29,028,492	27,610,247	(1,418,245)	26,095,247	28,210,247	2,115,000
Taxes	-	20,696	20,696	-	20,552	20,552
Licenses, Permits, and Fees	12,660,624	7,313,405	(5,347,219)	13,543,206	7,804,430	(5,738,776)
Fines, Forfeits and Penalties	17,904	78,707	60,803	19,100	49,714	30,614
Income From Money and Property	-	20,249	20,249	-	15,374	15,374
Grants, Refunds and Reimbursements	11,068,492	7,523,881	(3,544,611)	10,608,382	7,198,384	(3,409,998)
Higher Education (Student Fees)	-	-	-	-	-	-
Sales and Services	1,563,504	619,553	(943,951)	716,204	571,709	(144,495)
Non Revenue Receipts	116,560	206,900	90,340	97,199	154,425	57,226
Other Revenue Transactions	-	-	-	-	-	-
Total Revenues	54,455,576	43,393,639	(11,061,937)	51,079,338	44,024,834	(7,054,504)
EXPENDITURES						
Personnel Services	27,356,772	25,059,978	(2,296,794)	26,823,985	24,704,942	(2,119,043)
Professional Services	2,709,662	3,373,162	663,500	2,753,130	2,208,639	(544,491)
Travel Expenses	558,872	479,352	(79,520)	678,709	495,990	(182,719)
Administrative Expenses	6,530,285	5,476,729	(1,053,556)	6,560,220	4,862,063	(1,698,157)
Property, Furniture, Equipment, and Related Debt	3,425,897	2,754,255	(671,642)	3,584,433	2,827,590	(756,843)
General Assistance, Awards, Grants, and Other Program-Directed Payments	13,713,088	9,371,734	(4,341,354)	10,442,717	6,859,577	(3,583,140)
Transfers and Other Disbursements	161,000	130,053	(30,947)	272,744	129,048	(143,696)
Total Expenses	54,455,576	46,645,263	(7,810,313)	51,115,938	42,087,850	(9,028,088)
Expenditures Over (Under) Revenues		3,251,625			(1,936,985)	

Year-End Cash Balances: FY 12 - FY 14			
	FY 12	FY 13	FY 14
Appropriated Funds	3,281,922	1,756,620	4,019,245
Non-Appropriated Funds	5,010,588	3,377,191	3,315,078
Federal Funds	71,748	71,748	71,748
Total Available Cash	8,364,258	5,205,559	7,406,071



¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

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Scope and Methodology

Pursuant to the request of management and in accordance with 74 O.S. § 213.2.B, we conducted an operational audit of ODAFF for the period July 1, 2012 through June 30, 2014.

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, 2012 through June 30, 2014. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of ODAFF's operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. However, there were also instances where sample selections were made based on auditor judgment. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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.

OBJECTIVE

Determine whether the agency's internal controls provide reasonable assurance that revenues, expenditures (both miscellaneous and payroll), and inventories were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that receipts and inventory were accurately reported in accounting records. Financial operations complied with the following statutes:

- 2 O.S. § 8-77.7 – Inspections Fee
- 2 O.S. § 9-45 – Grain Storage Indemnity Fund.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Receipts

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*² states that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

The *Standards* further provide that information systems used by entities should be "designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. . . ."

Duties related to receipts are not properly segregated due to the following conditions:

- Payments are centrally receipted and deposited by the agency's finance department and the receipt information and remittance documents are sent to the program divisions for processing. However, some payments received through the mail may first be received and opened in the program divisions. These payments could be processed in the division and not be sent to finance for deposit. Therefore, an employee within each division or in the finance division could misappropriate a payment, without detection, because deposits are not independently reconciled to division outputs. The following was noted within each division:
 - **Environmental Management:** The division does not perform a reconciliation of their systems to the Legacy receipt report (a daily report provided by the finance division) to ensure that all payments for permits and fees issued were deposited.
 - **Food Safety:** The Legacy receipt report is not reconciled to the payment tracking spreadsheet to ensure that all collections were deposited; therefore, payments not deposited may not be detected.
 - **Lab:** The individual responsible for processing accounts receivable will occasionally receive payments, and no other independent reconciliation of these funds is

² Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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- performed. Therefore, the individual posting payments could misappropriate funds without detection.
- **Forestry:** The individual accepting payment is also responsible for reviewing the deposit report, with no other independent reconciliation of deposit information; therefore, this individual has the opportunity to misappropriate payments without detection.
 - **Consumer Protection:** Although duties are segregated, and invoices are reconciled with deposits, the division uses an antiquated database that is not capable of generating posting reports. Therefore, no procedures could be performed to ensure internal controls were operating effectively.

Recommendation

We recommend that management:

- Implement changes to ensure that there is proper segregation of duties related to receipts or mitigating controls to detect any misappropriation that could occur as a result of control weaknesses. This could be accomplished by having an individual within each division reconcile deposits to licenses or permits issued (or other outputs). The individual performing the reconciliation should be independent of the receipting and licensing or permitting process;
- Strengthen its central receipting process by eliminating or reducing opportunities for payments to be received directly by program staff; and
- Consider upgrading the current database within the Consumer Protection Division, to ensure historical posting reports can be generated to assist in the reconciliation process. Until the system is upgraded, management may consider printing and maintaining real time posting reports when reconciling payments to deposits.

Views of Responsible Officials

Management is working with Division Directors and personnel to implement a reconciliation process for receipts attributable to division activities. This process will include the reconciliation by a person independent of the licensing activities in the division.

The agency is also in the process of establishing a contract for on-line licensing which will include a new database for all Divisions. Until the

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upgrade is complete, management will work with Division Directors and personnel to obtain posting reports for reconciling payments to deposits.

Inadequate Segregation of Duties Over Inventory

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)* states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud. . . . No one individual should control all key aspects of a transaction." In addition, the GAO provides that management must establish physical control to secure and safeguard vulnerable assets; periodically count and compare such assets to control records; design an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

The Agency has not segregated key duties related to inventory. The following conflicting conditions were identified:

- Various individuals within each division of the Agency have access to the inventory database. These users have the ability to initiate purchases, receive purchased inventory, and modify inventory records and surplus inventory items.
- The agency does not perform a formal physical inventory count. Inventory is self-reported by employees within the division.
- From a sample of 60 items, we could not verify the existence of 18 items.
- From a sample of 20 surplus inventory items, two items remained on the agency's inventory listing, with no indication that the items were surplus.

In each case, the lack of segregation of duties provides the opportunity for inventory to be misstated or misappropriated without detection.

Recommendation

We recommend management segregate duties to ensure that the employee responsible for maintaining inventory records does not have authority to receive purchased goods or approve surplus property transactions. We also recommend that management ensure an annual inventory count is conducted by an employee that does not have access to modify inventory records.

The inventory listing should be updated following an inventory count and a reconciliation should be performed to ensure that items added and deleted are documented on the inventory listing. Management should also

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make every effort possible to ensure the items not able to be verified are located and accounted for.

Views of Responsible Officials

Management is working with Division Directors and personnel to review the inventory process and modify as needed to incorporate segregation of physical inventory and database updates. The physical inventory process will require that all assets are properly shown in the database and all acquisitions and deletions are noted.



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