

OPERATIONAL AUDIT

OKLAHOMA WHEAT COMMISSION

For the period July 1, 2009 through December 31, 2011



*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 Wheat Commission**

**For the Period
July 1, 2009 through December 31, 2011**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

June 12, 2012

TO THE OKLAHOMA WHEAT COMMISSION

This is the audit report of the Oklahoma Wheat Commission for the period July 1, 2009 through December 31, 2011. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

Oklahoma Wheat Commission Operational Audit

Background

The Oklahoma Wheat Commission (the Agency or Commission) was established by the Legislature in 1965 and is engaged in promotion, utilization, market development, and research for wheat growers in Oklahoma. Much effort is directed toward foreign markets, since approximately 60% of the State's wheat is exported. The Commission's operating expenses are borne by the wheat producers through a fee system.

Oversight is provided by seven commissioners (the Commission), including the Secretary of Agriculture and the Dean of Agriculture at Oklahoma State University, who serve as ex-officio, non-voting members. Five commissioners are appointed by the governor and serve terms of five years each.

Commission members are:

Tom Stephens, Guymon. Chairman
 Tom Glazier, Loyal..... Vice Chairman
 Don Schieber, Ponca City.....Secretary-Treasurer
 Kenneth Failes, Cherokee Commissioner
 David Gammill, Chattanooga Commissioner
 Jim Reese Ex-Officio
 Dr. Robert Whitson..... Ex-Officio

Table 1 summarizes the agency's sources and uses of funds for state fiscal years 2011 and 2010 (July 1, 2009 through June 30, 2011).

Table 1 - Sources and Uses of Funds for SFY 2011 and SFY 2010

	2011	2010
Sources:		
Fees and Sales	\$ 1,859,517	\$ 1,210,955
Interest on Investments	38,872	34,443
Total Sources	\$ 1,898,389	\$ 1,245,398
Uses:		
Personnel Services	\$ 285,751	\$ 305,931
Professional Services	595,546	469,312
Travel	63,055	57,492
Miscellaneous Administrative	58,273	29,464
Rent	23,516	16,775
Specialized Supplies & Materials	8,178	4,001
Shop	10,833	31,250
Office Furniture & Equipment	36,099	12,201
Scholarship, Tuition, Incentive	50,000	-
Refunds, Idemnities, Restitution	155,940	101,898
Program Reimbursements, Litigation	337,855	233,328
Other	7,333	2,987
Total Uses	\$ 1,632,379	\$ 1,264,639

Source: Oklahoma PeopleSoft Accounting System (unaudited, for information purposes only)

Oklahoma Wheat Commission Operational Audit

Purpose, Scope, and Sample Methodology

This 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.

The audit period covered was July 1, 2009 through December 31, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective – Determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records, and financial operations complied with 2 O.S. § 18-308 (B), 2 O.S. § 18-308 (C), 2 O.S. § 18-313 (A) and 74 O.S. § 3601.2 (A)(3).

Conclusion

The Agency's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records; however, they do not provide the same assurance for revenues or miscellaneous expenditures.

Financial operations complied with the following statutes:

- 2 O.S. § 18-308 (C) – Commission member on the board of the directors of the Oklahoma Wheat Research Foundation
- 74 O.S. § 3601.2 (A)(3) – Executive director's salary

With respect to the items tested, financial operations generally complied with the following statute; however, some areas could be strengthened:

- 2 O.S. § 18-313 (A) – Refund of fees assessed by the Commission

Oklahoma Wheat Commission Operational Audit

In regards to 2 O.S. § 18-308 (B)¹, the Agency's calculation method for determining the amount to be transferred to the Oklahoma Wheat Research Foundation appears to be consistent with state statute. (It should be noted that because of the lack of segregation of duties related to revenues discussed in this report, controls were not in place at the Agency to ensure that all revenues received were deposited. Therefore, our procedures could be designed only to ensure that revenues receipted and deposited appeared to have been properly included in the calculations.) However, because the statute is vague as to the costs to be included in each category of the calculation, we will not conclude as to the Agency's compliance with this statute.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting and expenditure (including payroll) processes through discussions with Agency personnel, observation, and review of documents
- Tested controls using the following procedures:
 - Reviewing payroll documentation from ten randomly selected months to determine whether the payroll documents were properly approved and all employees' salaries agreed to the PeopleSoft accounting system
 - Reviewing all ten payroll changes that took place during the audit period to ensure the changes were properly approved and reflected in approved payroll documentation
- Recalculated payments made to the Oklahoma Wheat Research Foundation for five randomly selected quarters (15 months) to determine whether the calculations were conducted and payments were made in accordance with 2 O.S. § 18-308 (B)
- Discussed with Agency and Oklahoma Wheat Research Foundation personnel to determine whether a Commission member is appointed to the Oklahoma Wheat Research Foundation board of directors, as required by 2 O.S. § 18-308 (C)
- Reviewed a random sample of 60 refund claims to ensure refunds included supporting documentation and were requested in a timely manner, as set forth in 2 O.S. § 18-313 (A)
- Reviewed audit period payroll information in the PeopleSoft accounting system to ensure the director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2 (A)(3)

¹ 2 O.S. § 18-308 (B) requires the Agency to allocate twenty percent (20%) of the \$0.015 per bushel fee collected by the Agency to the Oklahoma Wheat Research Foundation for the purpose of conducting wheat research. The 20% allocations should be less the cost of collecting the fee, which should not exceed 50% of the total of the office rental, clerical costs, and the cost of supplies and postage. The costs are prorated on the basis of eighty percent (80%) to the Commission and twenty percent (20%) to the Oklahoma Wheat Research Foundation.

Oklahoma Wheat Commission Operational Audit

Observation

Inadequate Segregation of Duties in the Revenue Process-Repeat Observation

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*² 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."

The business manager is responsible for the following in the revenue process:

- Entering remittance payments into an internal database
- Generating receipts
- Preparing deposit documentation
- Taking deposits to the bank
- Posting deposits into the PeopleSoft accounting system
- Preparing the monthly clearing account reconciliation

Management believed that they had appropriate segregation of duties in place because the executive secretary is responsible for receiving remittance payment checks and for entering the check amounts onto an unnumbered bank deposit slip. However, there is no independent review of deposit documentation after funds are deposited to the bank, and the internal database does not maintain a historical log of payment adjustments. Management has no assurance that funds received are ultimately deposited.

Recommendation

The director or executive secretary should review supporting documentation after the deposit slip is processed by the bank to ensure the amount deposited agrees to the supporting documentation (copies of the checks) maintained by the executive secretary. After reviewing the deposit, the director or executive secretary should endorse the documentation as evidence that a review has been performed and the deposit amount is accurate.

Views of Responsible Officials

No financial improprieties exist despite the weakness in internal controls. Adequate backup documentation was presented for every tested transaction in the revenue process. Since our agency has only one Business Manager, accounting knowledge is usually limited to one employee. Unfortunately, this employee is the only employee who has accounting training and ability to enter remittance payments into an internal database, generate receipts, post and prepare transactions. It is important to note that we also have a part time employee who reviews the monthly revenue process along with the Executive Director at the end of each month. In regards to deposits made at the bank, the Executive Director or Executive Secretary will review supporting documentation after the deposit slip is processed by the bank to ensure the amount deposited agrees to the supporting documentation (copies of the checks) maintained by the Executive Secretary. After reviewing the deposit, the Executive Director or Executive Secretary will endorse the documentation as evidence that a review has been performed and the deposit amount is accurate.

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.

Oklahoma Wheat Commission Operational Audit

Observation

Inadequate Segregation of Duties in the Expenditure Process – Repeat Observation

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*² 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."

The business manager is responsible for the following in the expenditure process:

- Generating purchase orders
- Receiving and signing invoices
- Posting expenditures into the PeopleSoft accounting system
- Mailing expenditure warrants to vendors
- Preparing monthly expense reports

This lack of segregation of duties, due primarily to the Agency's small size, could allow for inappropriate expenditures to occur without timely detection by management.

Recommendation

Each month, the director should review the "six digit detailed expenditure report" from the PeopleSoft accounting system in a PDF file. The detailed review should ensure all of the expenditures identified were presented to him for approval and are appropriate given the mission of the Agency. Ideally, evidence of this review should be retained with the date and signature of the director noted.

Views of Responsible Officials

In an agency with a staff size of 3 full time employees and 1 part time employee it seems sometimes duties can only be segregated so much. It is important to note that adequate backup documentation was presented for every tested transaction in the expenditure process. No financial improprieties exist despite the weakness in internal controls. Once again, the Business Manager, or individual with the accounting knowledge is the only employee with the accounting training and ability to generate purchase orders, receive and sign invoices, post expenditures into People Soft accounting system, mail expenditure reports to the vendors, and prepare the monthly expense report. It is also important to note that the Executive Director of the agency also signs off on every invoice and signs all OSF 15A Claim Vouchers in addition to approving those individual invoices before they are entered into the PeopleSoft accounting system for payment. It is important to observe we also have a part time employee who reviews the monthly expenditure process with the Executive Director at the end of each month. In addition, at the end of each month the Executive Director will review the "six digit detailed expenditure report" from the PeopleSoft accounting system in a PDF file. This detailed review will ensure all of the expenditures identified were presented to him for approval and are appropriate given the mission of the agency. Ideally, evidence of this review will be retained with the date and signature of the Executive Director noted.

Oklahoma Wheat Commission Operational Audit

Observation

Questions Related to the Calculation of 20% Payments to the Oklahoma Wheat Research Foundation – Repeat Observation

2 O.S. § 18-308 (B), states that the Commission should allocate 20% of its collected fees³ to the Oklahoma Wheat Research Foundation (Foundation), “less the cost of collecting the fee, such cost not to exceed fifty percent (50%) of the total of the office rental and clerical costs, and the costs of supplies and postage and such cost to be prorated on the basis of eighty percent (80%) to the Commission and twenty percent (20%) to the Foundation.”

While the method used by the Agency to calculate the amount of the payment made to the Foundation seems to be consistent with this statute, some costs included in the calculation of “collecting the fee” appear questionable. However, as the language in the statute could be open to interpretation, we ultimately were unable to conclude as to the Agency’s compliance with this statute. The following are examples of questionable costs:

- The executive secretary and business manager are both involved in the process of collecting the fee. However, 100% of the business manager’s salary is classified as clerical cost, while none of the executive secretary’s salary is included in the cost of collecting the fee. The business manager indicated that this method of calculating clerical cost was used by the Agency’s former chief financial officer (CFO), and she has continued to use the method after assuming the former CFO’s duties. Because the statute uses the term “cost of collecting the fee,” it would seem reasonable that at least a portion of each employee’s salary should be included in the calculation.
- Some costs were included as “office supplies” but we could not readily determine how they applied to the “cost of collecting the fee”. Examples of these costs include: donuts and other food and drink items for commission meetings; meeting room and portable restroom rentals for meetings; cleaning supplies; toll roads; training; and engraved, silver-plated award trays.
- The cost of renting space to store the Agency’s trailer is being included as “office rental.” This does not appear to be rent associated with office space and therefore does not appear to relate to the “cost of collecting the fee.”

If costs are not classified correctly, incorrect payment amounts may be allocated to the Foundation.

Recommendation

We recommend the Agency consider consulting with their legal counsel as to what costs should be included or excluded from determining the “cost of collecting the fees”. The Agency may also want to consider seeking legislative changes to this statute that would make it more specific as to its intent.

³ These fees are the \$0.015 per bushel tax collected on wheat sales.

Oklahoma Wheat Commission Operational Audit

Views of Responsible Officials

The Oklahoma Wheat Commission's mission statement is to promote the research, market development and utilization of wheat through programs and promotion, information and education. Therefore, the Commission's view is that every expense involved in operating this Agency is the "cost of collecting the fee". The Oklahoma Wheat Commission is entirely producer controlled. Therefore, the Commission takes the stance that our agency works for and with the Oklahoma Wheat producer. The commission agrees that a portion of the payment should be withheld for administrative overhead costs. If the Commission were to reevaluate the calculations of the Wheat Research Foundation payment, it would only limit the amount of money to be distributed. However, this would not be the intent of the Oklahoma Wheat Resources Act or the spirit of the Commission. Therefore, the calculation of the Oklahoma Wheat Research foundation payment will be consistent with prior years and verifiable with adequate documentation for future payments.

Observation

Refunds Processed after 60 Day Deadline

2 O.S. § 18-313 (A) states in part that "any producer may request a refund of the fees so assessed within 60 days following the collection of the fee."

Prior to a refund being processed, informal Agency policy requires a signed, written request from the individual who actually paid the assessment within 60 days of the date of sale.

Of 60 refunds tested, we noted the following:

- One request was not signed by the individual who paid the assessment.
- Three refunds were paid more than 60 days following the collection of the fee with one of those being nearly six months after the deadline.

It appears the missing signature was an oversight, while management used professional judgment in determining the payments made after 60 days were reasonable given the circumstances surrounding each payment. The Agency does not appear to be in full compliance with 2 O.S. § 18-313 (A) or its informal policy.

Recommendation

Refund requests should be signed and payments should only be processed to those producers who request a refund of the fees so assessed within 60 days following the collection of the fee (the date of sale), as required by statute.

Views of Responsible Officials

The three refunds that were paid out after the 60 days following the collection of the fee were processed at the discretion of the Executive Director. Two of the refunds had been received in our office before the 60 day period but did not have signatures on the request. The office did talk with the producers who submitted those requests and sent them back for signatures and since they were received in a timely manner, the decision was made to pay those two refunds. In regards to the refund being processed nearly six months after the deadline, we did have a producer who was adamant that he sent his refund into the commission even though the documentation was never received. We did take his information

Oklahoma Wheat Commission Operational Audit

down but could never make a payment since the documentation was never received. We did receive the information postmarked several months later with the wrong address on the envelope. The decision was made, since it took the mail so long to correct the mistake, we should honor the wishes of the producer. The one request found not signed by the individual was an oversight and the agency will work hard to correct this in the future.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV