

OKLAHOMA PEANUT COMMISSION

FOR THE PERIOD
JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Peanut Commission**

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

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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June 30, 2009

TO THE OKLAHOMA PEANUT COMMISSION

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Peanut Commission 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, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Peanut Commission is to enhance the viability of Oklahoma peanut producers through promotion, education and research efforts. This mission positions the Oklahoma Peanut Commission to:

- Keep producers profitable and competitive via resistant, more productive varieties of peanuts, reduce input costs, and improve production practices;
- Increase consumer awareness of the wholesomeness of peanuts and peanut products, thereby increasing consumption and demand;
- Keep Oklahoma peanut producers competitive in a new world of marketing strategies and an ever changing farm program;
- Expose educators and their students to the world of peanuts; and
- Provide timely information about the peanut industry to its stakeholders.

Board Members

FY 2008

John Clay	Chair
Joe D. White Jr.	Vice-Chair
Les Crall	Secretary
Mike Mayes	Member
Anthony Reed	Member
Duane Stevens	Member

FY 2007

John Clay	Chair
Duane Stevens	Vice-Chair
Joe D. White Jr.	Secretary
Mike Mayes	Member
Les Crall	Member
Anthony Reed	Member

FY 2006

John Clay	Chair
Les Crall	Vice-Chair
Joe D. White Jr.	Secretary
Mike Mayes	Member
Duane Stevens	Member
Anthony Reed	Member

Key Staff

J. Mike Kubicek.....	Executive Secretary
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TO THE OKLAHOMA PEANUT COMMISSION

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

- The Commission's internal controls provided reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with 74 O.S. 3601.2;
- 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.

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.

A handwritten signature in blue ink, reading 'Steve Burrage', is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR
November 18, 2008

Background

The Oklahoma Peanut Commission (Commission) enhances the viability of Oklahoma peanut producers through promotion, education and research efforts.

The Commission's operations are governed by 2 O.S. § 18-52, also known as the Oklahoma Peanut Act. In accordance with the provisions of the Oklahoma Sunset Law, the Oklahoma Peanut Commission is scheduled to continue until July 1, 2012.

Oversight of the Commission is provided by a six-member board comprised from three districts as described in 2 O.S. § 18-52. Members of the Oklahoma Peanut Commission shall be residents of this state who are at least twenty-five (25) years of age, are actively engaged in growing peanuts in this state and have paid their current assessment as provided for in the Oklahoma Peanut Act. Election of six nominees from each district is conducted by the Oklahoma Peanut Commission. Appointments to the Commission are made by the Governor from the list of six nominees in each district. The manner in which these six nominees are elected shall be at the discretion of the Board of Directors of the Oklahoma Peanut Commission.

Table 1 summarizes the Commission'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
Market Development/Licenses/Permits/Fees	\$58,523	\$0
Regulatory Board Fees/Assessments-Commodity Sale	73,130	111,835
Interest on Investments	<u>2,028</u>	<u>1,660</u>
Total Sources	<u>\$133,681</u>	<u>\$113,495</u>
Uses:		
Personnel Services	\$73,603	\$79,096
Professional Services	890	517
Travel	16,038	19,028
Miscellaneous Administrative	8,191	8,552
Rent Expense	6,215	4,668
General Operating Expenses	1,139	788
Assistance Payments to Agencies	66,000	0
Other	<u>1,860</u>	<u>1,587</u>
Total Uses	<u>\$173,936</u>	<u>\$114,236</u>

Source: Oklahoma CORE Accounting System (Unaudited; for informational purposes only).

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

Conclusion

The Commission's internal controls do not provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records or that the Commission has complied with applicable finance-related regulations. Therefore, controls should be strengthened to help ensure misappropriation of assets and/or abuse does not occur.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - **depositing requirements for agency clearing accounts and agency special accounts**;
- Documented internal controls related to the revenue and expenditure processes;
- Tested controls over revenue which included:
 - Reconciling with the Federal/State Inspection Service's Final Report to ensure the Commission received and deposited all assessments;
 - Reviewing 10 deposits from the period to ensure the bank deposit date was within one day of the deposit slip date;
 - Reviewing 10 deposits from the period to ensure the deposit was adequately supported;
 - Reviewing a CORE deposit report for the period to ensure funds were transferred from the Commission's clearing account to the revolving fund at least once per month;
 - Reviewing OSF-Form 11 reconciliations and ensuring they were properly supported.
- Performed procedures over expenditures which included:
 - Reviewing 39 claims and determining the claims were:
 - properly supported;
 - mathematically accurate;
 - paid using the correct account codes;
 - not paid to fictitious vendors;
 - reasonable given the Commission's mission; and
 - paid in accordance with applicable State statutes and the Office of State Finance Procedures Manual.

Observations

Inadequate Segregation of Duties

An effective internal control system provides for adequate segregation of duties. Based on conversation with the executive secretary, he is responsible for the following:

- Receiving and endorsing checks delivered through the mail and walk-ins;
- Posting checks to a deposit log;
- Preparing the deposit without the review of another employee;
- Mailing the deposit to the bank;
- Performing the clearing account reconciliation without an independent review and authorization;
- Initiating purchase orders, preparing and approving claim vouchers, receiving warrants from the Office of State Finance (OSF), and mailing warrants to vendors.

Inadequate segregation of duties inherently increases the risk that misappropriation of assets or abuse could occur and not be detected in a timely manner.

Recommendation: We recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. Ideally, the person performing the reconciliation should be independent of the receipting process. Since there is only one employee, the reconciliation could be prepared by a board member.

View of Responsible Officials: The Executive Secretary as CFO *is authorized* to deposit and transfer funds with the Office of State Treasurer; and perform monthly clearing account reconciliation. The majority of the Agency's assessment revenue is received as direct electronic deposit from USDA to the Office of State Treasurer. Historically, fewer than twenty (20) deposits per fiscal year are processed by the Agency. No cash is accepted and no petty cash is used by the Agency.

Agency policy and procedures, including internal controls, are annually subject to review and revision by the Board. Agency management will encourage the Board to continue to review and revise internal controls as deemed appropriate.

Auditor Response: It should be noted that the issue of segregation of duties has been discussed with management in previous engagements. In addition, during the current audit period it appears the agency only received approximately 50% of its revenue by direct deposit. We encourage management to develop and implement mitigating controls to address this issue appropriately.

Reconciliation to Office of State Treasury (OST) Records

An effective internal control system provides for adequate reconciliation of accounting records as well as adequate segregation of duties.

The Office of State Finance (OSF) Procedures Manual, Section 510, states in part, “The purpose of the OSF Form 11 is to provide to OSF summary information of the clearing account activity...This report is to be completed each month...and remitted to OSF...regardless of the amount of activity.”

Based on observation of an OSF-Form 11 reconciliation, management does not reconcile their clearing account to the Office of the Oklahoma State Treasurer (OST) Monthly Agency Statement. Without an official reconciliation to OST, transactions that have not cleared the bank and transactions that were inadvertently not posted or posted incorrectly may go undetected.

Recommendation: We recommend personnel develop a formal process for reconciling their clearing account to OST on a monthly basis. Ideally, the person performing the reconciliation should be independent of the receipting process. Since there is only one employee, the reconciliation could be prepared by a board member.

View of Responsible Officials: The Office of State Treasurer historically provided the Agency with a monthly statement of deposit and transfer transactions allowing management to properly reconcile clearing account activity. During the period reviewed, the OST suspended the ‘hard copy’ statement as a result of implementing the PeopleSoft accounting system.

During this period, management monthly reviewed the Office of State Finance Agency deposit report to verify all Agency transactions were properly accounted for. As required, management monthly completed and submitted OSF form 11 without exception.

As of the March 2008 reporting date, the OST Monthly Agency Statement was reinstated to the Agency, thus providing for reinstatement of the previous reconciliation procedure. Agency management will encourage the Board to review and revise reconciliation procedure as deemed appropriate.

Use of Certain Account Code Appears Questionable

The Office of State Finance Procedures Manual Chapter 100 – Appendix A3 states in part:

561130 EMPLOYEE REIMBURSEMENTS (NON-TRAVEL) - Payments on a reimbursement basis to employees and officials for certain miscellaneous emergency purchases or other purchases not available through their agency’s normal purchasing process...

Eight of 39 expenditure claims tested were coded 561130 – Employee Reimbursements and were paid directly to the executive secretary. During our testing, we noted:

- Two of the eight claims contained payments for two luncheons. The Office of State Finance Procedures Manual Chapter 300, Section 319 A, states in part that payments for purchase of light food and drink items (e.g., doughnuts, cake, coffee, tea, soft drink, etc.) are considered a valid operating expense of the agency to the extent that the purchase of these items serves a public purpose. However, providing lunch for meetings does not fit the criteria of payments for purchase of light food and drink items. The Office of

State Finance Procedures Manual Chapter 300, Section 318 – General Information and Prohibited Acts, states in part that inappropriate purchases of refreshments outside of section 319 could be considered as a purchase of gifts under prohibited acts. According to the Commission meeting minutes, lunch was provided at a Commission meeting hosted by the Clint Williams Company Shelling Plant at a cost to the Commission of \$149.49 and another meeting with the Oklahoma Wheat Commission at a cost to the Commission of \$132.19;

- The Office of State Finance Procedures Manual Chapter 300, Section 319 G, states in part that employees and officials may be reimbursed for miscellaneous emergency purchases or purchases not available through the agency's normal purchasing procedures, but the purchase must be an official state expense.
 - One of the eight claims contained an invoice for a custom logo golf shirt in the amount of \$36.90, but the receipt did not indicate if the Commission's logo was used;
 - One of the eight claims contained two receipts (one for \$28.14 and the other for \$51.27) that did not contain a vendor name or a description of the items purchased;
 - One of the eight claims contained lodging and parking payments in the amount of \$67.50 and \$75.50 for two previous board members (they were not Board members at the time the expense was incurred), but reimbursed to the executive secretary. Expenses related to previous board members are not eligible to be reimbursed by the state;
 - Two of the eight claims contained cut-off notices from the electric service provider. To avoid cut-off, the executive secretary paid the service with a personal check. Failure to pay utilities in a timely manner results in the Commission paying late payment penalties. In addition, it appears the electric service should have been purchased through the Commission's normal purchasing process using account code 531350 – Utility Charges;
 - One of the eight claims contained an invoice for custom printing of M&M's candy; however, the invoice was billed directly to the executive secretary and did not indicate the wording of the custom print (someone had written "Eat More Peanuts" on the invoice). The Commission paid \$337.50 plus shipping costs of \$47.25 for 90 - 1.75 ounce bags of candy at an average cost of \$4.28 per bag. In addition, the invoice did not indicate whether the custom-ordered candy contained peanuts.
- The Office of State Finance Procedures Manual Chapter 300, Section 319 G, states in part that employees and officials may be reimbursed for miscellaneous emergency purchases; however, the claim must be supported by evidence of payment (i.e., cash payment, credit card receipt, or front and back copy of a canceled check) or annotated by the vendor indicating the expense has been paid in full. Six of eight claims contained invoices and/or receipts that did not indicate the expense had been paid in full, and either did not indicate the payment type or only contained copies of the front of the executive secretary's personal check. Therefore, we were unable to determine if the expense claimed by the executive secretary had actually been paid;
- One of the eight claims contained an invoice for an advance payment. The Office of State Finance Procedures Manual Chapter 300, Section 319 L, states in part that payments to vendors prior to the receipt of the product constitutes lending of credit or monies by the state, which violates Article 10, §15, of the Oklahoma Constitution. In addition, according to 74 O.S. § 85.44B, the payment of goods by a state agency shall be made only after the products have been received. The executive secretary paid \$161.81 to Grindmaster Corporation by personal check for an item prior to receipt of it. In addition, there was no justification attached to the claim to support the purchase of the item, as required by Chapter 300, Section 319 G, of OSF's procedures manual which states in part that reimbursements which exceed \$100 per claim must include written justification for the purchase;
- Pursuant to 68 O.S. § 1356, the Commission is exempt from Oklahoma sales taxes. By not making these purchases through the Commission's normal purchasing process, the Commission is paying taxes on the items purchased by the executive secretary. This totaled \$63.39 for the eight claims in question.

Many items did not appear to have been emergency situations and most goods would have been available through the Commission's normal purchasing process. By allowing employees to purchase goods and seek reimbursement in non-emergency situations, the Commission is not utilizing state-wide contracts as required by Oklahoma

Administrative Code 580: 15-6-5 (1) (A). This could result in additional costs to the Commission as well as creating an environment which could result in unauthorized or inappropriate payments.

Recommendation: We recommend:

- Commission personnel and the governing board review the purpose of this account code and utilize it only when appropriate;
- Commission personnel maintain adequate supporting documentation to support reimbursed charges to account code 561130;
- An independent (i.e., board member) review of claims prior to payment be performed to help ensure compliance with the above-noted laws and policies.

Views of Responsible Officials: The Agency reviews, approves and submits “non-travel employee reimbursements” to OSF, via notarized OSF Form 3, using the appropriate accounting code 561130. Each of the reimbursed claims cited in the review were appropriate to conducting research, promotion and education functions of the Commission.

Management agrees, as part of the 561130 claim, individual invoices should be specifically assigned a separate operational object code. Management will review and strengthen supporting documentation procedures and restrict sales tax reimbursements.

Travel Claims Prepared Using Incorrect Rates

Per the United States General Services Administration (GSA), if neither the city nor the county is listed, the reimbursement rate for lodging in Oklahoma is \$60.00 and \$39.00 for meals and incidental expenses. According to Chapter 300, Section 330 of OSF’s State Travel Reimbursement Procedures, Part C.2.a. – Regular Lodging Rates, “Reimbursement for lodging expense shall not exceed the maximum daily rates.”

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted five claimed lodging above the maximum lodging rates provided by the GSA. This resulted in an overpayment of \$204.00.

Recommendation: We recommend Commission personnel review and follow the OSF Procedures Manual when preparing travel claims. In addition, we recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above noted policies.

Views of Responsible Officials: Management re-reviewed the five lodging claims cited in the report. OSF’s State Travel Reimbursement Procedure allowing for meeting/conference designated lodging rates “not limited to the maximum standard daily rates” was followed as authorized. Appropriate meeting/conference supporting documents accompanied each claim submitted to OSF. All travel claims and supporting documents are reviewed for compliance by OSF personnel prior to warrant issue.

Management shall review compliance with State Travel Reimbursement procedures with the Board and implement all additional policies determined necessary.

Auditor Response: In order for lodging to qualify as a designated lodging rate, certain criteria must be noted on the meeting announcement. The meeting announcement attached to the claim did not meet the criteria in the Office of State Finance Procedures Manual Chapter 300, Section 330 C.2.b.(2), which states in part, “...As documentation for lodging expense reimbursement, the agency must provide the employee with its announcement or notice stating the ...(4) single room rate charge authorized”. We noted on the travel claims for the February 13, 2006, Commission meeting held at the Atherton Hotel, three Commission members’ travel claims charged a \$60.00 per night rate while the three other Commission members’ travel claims charged a \$71 per night rate. All of the travel claims should have been charged at the same rate.

Executive Secretary Prepares Board Members' Claims

The Office of State Finance Procedures Manual Chapter 300, Section 330 B.1., states in part that the traveler is responsible for preparation and submission of their own travel voucher. It further states that although the agency should assist and/or provide training in the process, it is the traveler's responsibility to obtain appropriate receipts for all applicable charges and to keep a personal record of miscellaneous expenditures chargeable to the state. During our procedures, we noted that the executive secretary prepares the claims for the board members and the board members sign them.

Recommendation: We recommend the Commission personnel follow OSF policy Section 330A and discontinue the practice of completing travel claims on behalf of its Commission members.

Views of Responsible Officials: Agency management will review "individual responsibilities" as outlined in the State Travel Reimbursement Procedures with Commissioners; provide appropriate assistance and training in completing and filing individual travel claims.

Direct Purchase of Travel Expenses

The Office of State Finance Procedures Manual Chapter 300, Section 329, states in part:

Arrangements for commercial airline tickets for state employees on official business and other persons traveling for state-authorized purposes must be made in accordance with rules and regulations promulgated by the State Travel Division of the Department of Central Services (DCS). These rules require that acquisition of commercial airline tickets for official travel for the State be made through one of the State contract travel agencies on file with the DCS. Exception is provided when the agency or department determines that the air travel:

- A. services can be secured at a cost less than that which can be secured by the State Travel Division; or
- B. originates from a location outside the state and it would be impractical to arrange for the air travel through the State Travel Division; or
- C. is necessitated by an emergency and time does not permit utilization of the State Travel Division's services; or
- D. is part of a package arrangement made by the organization scheduling the meeting or conference.

Any claim for reimbursement for an airplane ticket purchased from a non-contract travel agency must contain an appropriate reason statement from above for exception. If none of the above reasons apply, a waiver approval notice from DCS/Central Purchasing is required.

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted one claim that had flight charges which were not purchased through statewide contract nor was a waiver approval notice from DCS/Central Purchasing attached. In addition, of the ten miscellaneous claims tested, we noted one claim that had flight charges that were not purchased through statewide contract nor was a waiver approval notice from DCS/Central Purchasing attached. Failure to follow DCS' regulations regarding the direct purchase of airline tickets could result in the Commission paying higher prices for airline tickets.

Recommendation: We recommend the Commission follow DCS' regulations regarding the direct purchase of airline tickets. In addition, we recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above noted policies.

Views of Responsible Officials: Air travel for the Agency is arranged according to OSF procedures using a State contract travel agency and/or following exception procedures as authorized to secure services at a lower cost or meet

time constraints. Management will review current procedures with the Board and implement additional policies determined necessary.

Auditor Response: At the time of this report, management had not provided to the auditors a waiver approval notice from DCS/Central purchasing for travel not made in accordance with OSF requirements.

Excessive Vicinity Mileage

The Office of State Finance Procedures Manual Chapter 300, Section 330 B.1., states in part:

Employees traveling on official business for the state are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business. Excess costs, circuitous routes, luxury accommodations and services unnecessary or unjustified in the performance of official business are not acceptable and should be avoided as a standard practice...

The Office of State Finance Procedures Manual Chapter 300, Section 330 C.4.d., states in part:

Agency heads may authorize the use of privately-owned or contract leased/rented automobiles for motor vehicle travel when such is advantageous to the state... reimbursement shall be limited to the actual cost... Excess odometer mileage over the map miles as recorded from the starting and ending points of travel can be claimed as vicinity mileage if such travel was official business travel and based on the most direct route. Vicinity mileage appearing to be excessive based on the nature of official business will be questioned if not justified.

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted all of the claims appeared to contain excessive vicinity mileage. For example, the executive secretary and board members claimed between 30 and 50 vicinity miles each while attending a one day hearing at the State Capitol, and the executive secretary and each board member claimed 30 vicinity miles while attending a two day conference in Stillwater. The executive secretary and the board members stayed in the same hotel in which the conference was held. The executive secretary routinely claims 45 vicinity miles per day in Shawnee while performing administrative duties for the Commission. The above-noted examples do not appear to be justified or prudent.

Recommendation: We recommend Commission personnel review and follow the OSF Procedures Manual when preparing travel claims and base vicinity miles on actual miles traveled, not an estimate. In addition, we recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, a mileage log could be required by the Commission to support payment of vicinity mileage.

Views of Responsible Officials: Total mileage reimbursement includes map miles from the nearest starting city to the nearest ending city plus “vicinity” mileage, which accounts for excess mileage over the city to city points. Commissioners travel on official business from their rural locations outside the starting city and often are required to meet with producers or attend Commission field-days, research plots or functions outside an ending city notation. Staff is required to use personal vehicles for routine administrative functions within a city location for daily post office pickup and delivery, securing supplies and/or making package shipments. The administrative vicinity miles claimed by staff was for accumulative mileage over a period of several days, which should have been more clearly noted on the claim. This issue has been previously reviewed with SA&I reviewers.

Management will continue to follow OSF travel claim procedures and base vicinity mileage on actual miles traveled and clearly note appropriate explanations. Management will review current procedures with the Board and implement additional policies determined.

Map Mileage is not Consistent with Mileage Chart

The Office of State Finance Procedures Manual Chapter 300, Section 330 C.4.d., states in part that:

Agency heads may authorize the use of privately-owned or contract leased/rented automobiles for motor vehicle travel when such is advantageous to the state... reimbursement shall be limited to the actual cost...based on the official mileage distance between points of travel as referenced in the latest Oklahoma Department of Transportation Statewide Mileage Chart.

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted 16 claims contained incorrect mileage based on the Oklahoma Department of Transportation mileage chart resulting in overpayments of \$121.54.

Recommendation: We recommend Commission personnel review and follow the OSF Procedures Manual and Oklahoma Department of Transportation statewide mileage chart when preparing travel claims. In addition, we recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above-noted policies.

Views of Responsible Officials: Management will review travel mileage claims using the Oklahoma Department of Transportation mileage program which approximates the shortest route between town centers. Management will review current procedures with the Board to determine if alternative or additional procedures could be implemented to strengthen internal controls.

Out-of-State Travel – Purpose of Travel not Evident

An effective internal control system provides for adequate supporting documentation.

The Office of State Finance Procedures Manual Chapter 300, Section 330 B.1., states in part:

Employees traveling on official business for the state are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business. Excess costs, circuitous routes, luxury accommodations and services unnecessary or unjustified in the performance of official business are not acceptable and should be avoided as a standard practice...

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted two claims for out-of-state travel to Washington, D.C. for which we were unable to determine the purpose of the trip. There was no agenda attached to the claim and the purpose of the trip was not evident. Lodging and per diem expenses of \$1,145.80 were incurred in addition to air fare expenses of \$1,130.40. Therefore, we were unable to determine if these expenses were reasonable given the Commission's mission.

Recommendation: We recommend Commission personnel ensure claims are properly supported. In addition, we recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above-noted policies.

Views of Responsible Officials: The purpose of the out of state travel to Washington, D.C. was to address "peanut issues" with Government and Congressional delegations on Oklahoma producer's behalf and to appeal a USDA fee schedule to be imposed on Commission assessment collections. Supporting documents filed with the travel claims were appropriate and in compliance with out of state travel procedures.

Auditor Response: At the time of this report, management had not provided detailed supporting documentation to the auditors.

Excessive Per Diem Claimed – Prudent Person Test

The Office of State Finance Procedures Manual Chapter 300, Section 330 B.1., states in part:

Employees traveling on official business for the state are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business. Excess costs, circuitous routes, luxury accommodations and services unnecessary or unjustified in the performance of official business are not acceptable and should be avoided as a standard practice...

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted:

- Three claims where per diem was claimed until 7:00 p.m. and the agenda stated the meeting adjourned at 11:30 a.m. The mileage claimed indicated the one way trip was approximately three to three and one-half hours;
- Two claims contained lodging charges (\$67.50 and \$79.88) for the night before the meeting and the meeting agenda stated the meeting began at 12:00 p.m. The mileage claimed indicated the one way trip was approximately three and one-half hours.

Recommendation: We recommend the governing board evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above-noted policies. Diligence should be exercised in these reviews to ensure the Commission is expending the state's dollars as prudently as possible.

Views of Responsible Officials: The Oklahoma Peanut Commission is a non-appropriated agency. The commissioners and staff exercise diligence in investment and expenditure of producer voluntary funding in conducting the programs and activities of the Commission. Current procedures will be reviewed by the Board to determine if additional procedures to strengthen internal controls are needed.

Phone Expense Allowances

The Office of State Finance Procedures Manual Chapter 300, Section 387 A (Payments to Board and Commission Members and Employee Expense Allowances), states in part that payments which are of a compensatory nature are subject to tax reporting and withholding of applicable income and employment taxes. In addition, it states that such payments must be paid through the payroll process using account code 511400 – Compensation – Board and Commission Members. Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, we noted nine claims contained telephone charges, but there was no supporting documentation. According to the executive secretary, the Commission provides compensation of \$20 to the board chairman and \$10 to each board member for telephone expenses. This compensation is added to the board members' travel claims using account code 521310 – Travel Reimbursement – Non State Employees. Compensation paid to board members appears to be taxable income and may not have had the applicable tax withheld. Furthermore, it appears the Commission does not have statutory authority to compensate Board members.

Recommendation: We recommend the Commission discontinue compensating Board members for phone expense.

Views of Responsible Officials: As a function of their duties and responsibilities, Commissioners routinely communicate with producers in their respective districts by phone and maintain regular phone contact with the Commission office. By the very nature of responsibility, the Commission's chairman phone contact is significantly more than other board members. Official business expenses appear appropriate for reimbursement; however, Management will discontinue phone expense allowances as part of board member travel claims.

Objective 2 – Determine if the Commission complied with 74 O.S. § 3601.2, which sets minimum and maximum salaries for Chief executive officers.

Conclusion

The Commission is in compliance with 74 O.S. § 3601.2.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 74 O.S. § 3601.2 and performed procedures to determine if the executive director’s salary was in compliance with the law.

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

Conclusion

The Office of the State Auditor and Inspector’s report issued June 9, 2006, included two findings which were considered significant to this engagement. As noted previously in this report, the segregation of duties condition has not been corrected. The remaining finding related to the approval of the executive secretary’s timesheet. After review of Office of Personnel Management’s policies concerning appointed authorities, it appears the Commission is in compliance.

Other Items Noted

Although not considered significant findings, we feel the items noted below should be communicated to management.

Postage

74 O.S. § 90.2 states, “No money shall be expended by any agency, board, commission, department or institution of the state for postage stamps or post office box rent except on vouchers made payable to United States Post Office and the warrant or check shall be endorsed by the postmaster from where the purchase is made.” Eight of 39 expenditure claims tested were coded 561130 – Employee Reimbursements and were paid directly to the executive secretary. During our testing, we noted one of the eight claims was a reimbursement for a payment to Express Mail postage in the amount of \$14.40. In addition, according to the supporting email, the letter mailed could have been sent as an email attachment to the recipient, which would have resulted in a savings to the agency of \$14.40. This payment is not in accordance with the above noted statute.

Recommendation: We recommend:

- Commission personnel and the governing board review the purpose of this account code and utilize it only when appropriate;
- An independent (i.e., board member) review of claims prior to payment be performed to help ensure compliance with the above noted laws and policies.

Views of Responsible Officials: The postage claim was for an overnight mailing required to meet an out of state researcher’s support document deadline for a peanut biofuels grant proposal. Though reference was made “that an email attachment” could have been made to the recipient, at the time of the request, producing a ‘pdf’ file was not possible. Staff expended personal funds to meet the need of the request and appropriately submitted a claim for reimbursement.

Overnight Stay – Distance Test not Met

The Office of State Finance Procedures Manual Chapter 300, Section 330 C.1.b., states in part that:

...the travel distance performed must be such that the employee cannot reasonably leave from and return to his/her home or office location at the start or close of each day's work schedule. The reasonableness guideline used for the distance test is 60 map miles (one-way) or more... If travel does not meet the distance guideline... and there are valid reasons for waiving the distance test, the approving official should provide written clarification/explanation of the travel purpose and requirements and reasons for allowance of the expense(s) reimbursement.

Twenty-one of the 39 expenditure claims tested were travel claims. Of the 21 travel claims tested, one requested lodging reimbursement of \$96.80 from a conference in Oklahoma City. The conference agenda stated presentations began at 8:00 a.m. and concluded at 4:30 p.m. the first day. On the second day, presentations began at 8:00 a.m. and concluded at 11:30 a.m. Mileage reimbursement was requested from Shawnee to Oklahoma City which is 37 miles. The claim noted administrative duties required overnight stay, but did not indicate what the administrative duties were. The lodging bill indicated two adults stayed in the room.

Recommendation: We recommend Commission personnel review and follow the OSF Procedures Manual when preparing travel claims and ensure overnight stay meets these guidelines to avoid unnecessary expense to the Commission. The governing board should evaluate current procedures to determine if alternative or additional procedures could be implemented to strengthen the internal control structure of the Commission. For example, an independent (i.e., board member) review of claims prior to payment would help ensure compliance with the above-noted policies.

Views of Responsible Officials: Management will continue to follow OSF procedures when preparing travel claims and ensure overnight stay meets the guidelines and 60 mile distance test. In cases when travel does not meet the distance guideline, management will provide written explanation of the travel purpose and valid reasons for allowance of the expense reimbursement. Current procedures will be evaluated by the Board to determine if additional procedures are needed to strengthen internal controls.



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