

**OKLAHOMA WHEAT
UTILIZATION,
RESEARCH, AND
MARKET
DEVELOPMENT
COMMISSION**

**FOR THE PERIOD
JANUARY 1, 2007 THROUGH
JUNE 30, 2009**



OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Wheat Utilization, Research,
and Market Development Commission**

**For the Period
January 1, 2007 through June 30, 2009**

STATE AUDITOR AND INSPECTOR

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State Auditor

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September 28, 2009

**TO THE OKLAHOMA WHEAT UTILIZATION, RESEARCH,
AND MARKET DEVELOPMENT COMMISSION:**

This is the audit report of the Oklahoma Wheat Utilization, Research, and Market Development Commission for the period of January 1, 2007 through June 30, 2009. 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 that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

**Oklahoma Wheat Utilization, Research,
and Market Development Commission
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Background

The Oklahoma Wheat Utilization, Research, and Market Development Commission (the Agency) was established by the legislature in 1965 and is engaged in promotion, utilization, market development, and research for wheat grown in Oklahoma. The Agency is self-sustaining; their major revenue source is a \$0.015 tax paid on each bushel of wheat sold in the state. This is a mandatory/voluntary tax, in that grain elevators collect the tax when the wheat is processed, but individual wheat producers can request a refund of the tax through the Agency. The Agency's name changed from the Oklahoma Wheat Commission in 2001.

Oversight is provided by seven commission members (the Commission). Five commissioners are appointed by the governor from a list of nominees by district and serve terms of five years each. The other two commissioners – the president of the Oklahoma State Board of Agriculture and the director of the State Extension Service – are ex-officio, non-voting members.

The commissioners are:

Jeff Krehbiel Chair
 Don Schieber Vice-Chair
 Keith Kisling.....Secretary/Treasurer
 Tom Stephens Member
 Tom Glazier..... Member
 Terry Peach.....Ex-Officio
 Dr. Robert Whitson.....Ex-Officio

Table 1 summarizes the Agency's sources and uses of funds for state fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).

Table 1 - Sources and Uses of Funds for SFY 2008 and 2009

| | 2008 | 2009 |
|--|-------------|-------------|
| Sources: | | |
| Fees & Assessments | \$1,444,157 | \$1,886,966 |
| Interest on Investments | 48,872 | 43,291 |
| Total Sources | \$1,493,029 | \$1,930,257 |
| Uses: | | |
| Personnel Services | \$373,268 | \$357,241 |
| Professional Services | 576,489 | 443,021 |
| Miscellaneous Administrative | 59,522 | 78,200 |
| Travel Expenses | 77,580 | 86,401 |
| Program Reimbursement, Litigation Costs | 252,684 | 288,840 |
| Refunds, Indemnities, Restitution ¹ | 127,304 | 145,236 |
| Shop Expense | 52,708 | 113,208 |
| Other | 37,891 | 52,622 |
| Total Uses | \$1,557,446 | \$1,564,769 |

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

¹ This category represents assessment refunds paid to wheat producers.

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Purpose, Scope, and Sample Methodology

This audit was conducted in response to 2 O.S. § 18-314, which requires the State Auditor and Inspector to audit annually the books, records and accounts of the Agency.

The audit period covered was January 1, 2007 through June 30, 2009.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 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 1 - To determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with 2 O.S. § 18-308.B, 2 O.S. § 18-308.C, 74 O.S. § 3601.2.A.3, and Oklahoma Administrative Code (OAC) 795:1-1-6.

Conclusion

The Agency's internal controls generally provide reasonable assurance that revenues were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

The results of our tests indicate that with respect to the items tested, the Agency complied with:

- 2 O.S. § 18-308.C – A member of the Commission is appointed to the Oklahoma Wheat Research Foundation board;
- 74 O.S. § 3601.2.A.3 – The executive director's salary does not exceed statutory limits;
- OAC 795:1-1-6 – Travel reimbursement payments to Commission members were paid in compliance with the State Travel Reimbursement Act.

In regards to 2 O.S. § 18-308.B², 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. Although our procedures verify the costs used in calculating the transfer amount were properly supported, we determined that because the statute is

² 2 O.S. § 18-308.B requires the Agency to allocate 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 costs of supplies and postage. The costs are prorated on the basis of 80% to the Commission and 20% to the Oklahoma Wheat Research Foundation.

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vague as to the costs that should 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:

- Documented internal controls related to the receipting and expenditure processes, which included discussions with Agency personnel, observation, and review of documents;
- Tested controls, which included:
 - Determining whether the person who prepared the deposit was independent of the receipting process;
 - Determining whether the deposit is compared to daily remittance information and checked for mathematical accuracy;
 - Determining whether the deposit slip copy is compared to the bank deposit receipt by someone independent of taking the deposit to the bank;
 - Determining whether monthly receipts per the Agency database are compared to the monthly deposit total by someone independent of deposit preparation;
 - Reviewing a random sample of 40 deposits from the period, totaling \$525,595.90, to ensure the deposit slips agreed to attached check copies and bank deposit receipts, were mathematically accurate, and were posted in a timely manner.
- Discussed with Agency and Oklahoma Wheat Research Foundation personnel to determine that a wheat commissioner is appointed to the Research Foundation board as required by 2 O.S. § 18-308.C;
- Reviewed the “HR All Actions” report for the audit period in the PeopleSoft accounting system to ensure the executive director’s annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2.A.3;
- Reviewed the 10 highest and 15 randomly selected travel reimbursement payments to Commission members, totaling \$40,486.63, to determine whether compensation was received in accordance with the State Travel Reimbursement Act as required by OAC 795:1-1-6;
- Reviewed a random sample of four quarters (12 months) of the Agency’s calculations of its payments to the Oklahoma Wheat Research Foundation, to determine whether the calculations were conducted and payment was made in accordance with 2 O.S. § 18-308.B;
- Reviewed 11 expenditure claims for items listed as office supplies in the 20% calculation² totaling \$7,789.50, to determine whether they were properly supported by invoices, mathematically accurate, and properly classified as office supplies in the 20% calculation.

Observation

**Inadequate Segregation of Duties Related to the
Reconciliation and Expenditures Processes - Repeat Finding**

To protect against possible errors or irregularities, the internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating duties of employees.

Reconciliations

The chief financial officer (CFO) is responsible for:

- Receipting funds in PeopleSoft and in the Agency database;
- Preparing the monthly reconciliation.

It should be noted that the reconciliations are reviewed by the executive director. According to the CFO, the former executive director's review process was to review the reasonableness of the balances. The CFO functioned as interim executive director from January 2009 through March 2009, so an independent review was not performed. The current executive director as of April 2009 stated that he has supporting documentation available to him, but only reviews the supporting documentation if problems are noted. As a result, we determined this review does not mitigate the risk associated with the lack of segregation of duties.

Expenditures

The CFO is also responsible for:

- Creating purchase orders;
- Approving purchases and invoices when the executive director is not available;
- Posting expenditure claims³ to PeopleSoft;
- Approving expenditure claims for payment;
- Receiving and mailing expenditure warrants.

The assignment of these conflicting duties to the CFO occurred primarily because of the Agency's small size and the fact that the current executive director travels frequently to conduct Agency business. However, the Agency does have enough employees to allow for improved segregation of duties in these processes. Possible loss or misuse of funds could occur when only one person is responsible for these duties.

Recommendations

We recommend:

- The executive director review monthly reconciliations against supporting documentation (including Agency records and statements from the Office of the State Treasurer) to verify that the information presented agrees to those supporting documents. This review can occur monthly or on a random basis. If the review occurs on a random basis, it should not be performed in such a way that the employees can predict which months will be reviewed. For example, the executive director should not always select the first or last month of a quarter for review;
- Management consider implementing mitigating controls (additional review of expenditure information generated by PeopleSoft and additional review of revenue documentation) to reduce the risk when one or more employees are absent from the office. Because of the small staff size, the employees are cross-

³ It is the CFO's primary responsibility to post expenditure claims, but she also has the ability to post claims for refund payments.

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trained to perform multiple duties. As a result, when one employee is absent from the office, previously segregated duties may no longer be segregated. Because the CFO is the approving official for the claims, this additional review will also assist in keeping the executive director informed of what claims have been approved in his absence;

- The Agency segregate duties related to the expenditure process by having an employee who has no posting (generating the claim voucher form) or approving responsibilities, such as the director of communications, receive and distribute the warrants.

Views of Responsible Officials

No financial improprieties exist despite the weaknesses in internal controls. In fact, adequate backup documentation was presented for every tested transaction. In a small agency with few employees, accounting knowledge is usually limited to one employee. Unfortunately, this employee is the only employee who has the accounting training and ability to prepare transactions, post transactions and reconcile transactions. In light of this fact, the Executive Director will sign all OSF 15A Claim Vouchers in addition to approving individual invoices. In addition, the Executive Director will review on a random basis original documentation in order to justify monthly reconciliations. However, monthly financial statements have always been presented and approved by the Executive Director. Monthly financial statements are able to distinguish ALL payments made during the month as well as provide justification for monthly reconciliations.

Observation

**Questions Related to the Calculation of 20% Payment
to Oklahoma Wheat Research Foundation**

2 O.S. § 18-308.B, states that the Commission should allocate 20% of its collected fees⁴ to the Oklahoma Wheat Research 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 Oklahoma Wheat Research Foundation.”

While the method used by the Agency to calculate the amount of the payment made to the Research Foundation seems to be consistent with this statute, some costs included in the calculation of the “cost 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:

- Three employees are involved in the process of collecting the fee. The director of communications endorses checks and reviews remittance forms, the administrative officer prepares the deposit, and the CFO receipts and makes the deposit. However, 100% of the CFO’s salary and none of the administrative officer’s or director of communication’s salaries are included as clerical costs for the purposes of determining the cost of collecting the fee. The CFO indicated this allocation was based on the theory that because she performs the actual calculation of the 20%, only her salary should be included. However, 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;

⁴ These fees are the \$0.015 per bushel tax collected on wheat sales.

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- 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 items include: donuts and other food and drink items for commission meetings, trailer repair supplies, meeting room rental costs for an administrative meeting, dish soap, commissioners’ photographs, and engraved name tags; and
- 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 Oklahoma Wheat Research Foundation (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.

Views of Responsible Officials

The Oklahoma Wheat Commission’s mission statement is to promote the research, market development and utilization of wheat through programs of 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.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under the objective of this report, the following procedures were performed:

- Reviewed 20 expenditure claims totaling \$78,760.79 to ensure the claims were supported by invoices, were mathematically accurate, and that the expenditures seemed reasonable given the Agency’s mission;
- Reviewed 19 refund claims totaling \$4,216.24 to ensure they were supported by unique refund requests and were mathematically accurate;
- Performed a trend analysis comparing Oklahoma wheat production and prices per United States Department of Agriculture records to the Agency’s deposit totals for each quarter of the audit period, as well as all quarters of 2005 and 2006.

No exceptions were noted as a result of these procedures.



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