

Audit Report

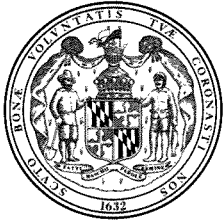
Department of Agriculture

April 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

April 24, 2013

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Department of Agriculture (MDA) for the period beginning July 1, 2009 and ending July 15, 2012. MDA's primary purpose is to supervise, administer, and promote agricultural activities throughout the State of Maryland.

This audit report contains four findings, all of which were repeated from the preceding audit report, with some dating back a number of years. Specifically, our audit disclosed that MDA had not established adequate controls over fiscal functions involving cash receipts, disbursements, accounts receivable, and property.

MDA's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by MDA during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The Maryland Department of Agriculture (MDA) supervises, administers, and promotes agricultural activities throughout the State of Maryland. Its mission is to provide leadership and support to agriculture and the citizens of Maryland by conducting regulatory, service, and educational activities that assure consumer confidence, protect the environment, and promote agriculture. MDA's responsibilities include providing planning assistance to farmers, protecting the health of domestic animals (such as livestock), controlling insect pests, regulating the use of pesticides, and implementing sound soil conservation methods. MDA also inspects and grades agricultural commodities, oversees the practice of veterinary medicine, and inspects the weighing and packaging of various products. According to the State's records, MDA's operating expenditures for fiscal year 2012 were approximately \$87 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated February 25, 2010. We determined that MDA satisfactorily addressed three findings. The remaining four findings are repeated in this report.

Organizational Change

Chapter 411, Laws of Maryland 2011, effective July 1, 2011, transferred the Seafood Marketing and Aquaculture Development Program, the Division of Market Development, and the Seafood Marketing Fund, and certain other related functions from MDA to the Department of Natural Resources (DNR). Accordingly, the scope of this MDA audit includes activities of these programs from July 1, 2009 through June 30, 2011. Activities subsequent to June 30, 2011 will be included in the scope of our next audit of DNR.

Findings and Recommendations

Cash Receipts

Finding 1

Certain cash receipts were not adequately controlled, verified to deposit, and reconciled with registrations issued.

Analysis

The Maryland Department of Agriculture (MDA) had not established adequate controls over cash receipts in one MDA unit. This unit collects funds for various fees including commercial feed and pesticide registrations. According to MDA records, this unit's collections totaled approximately \$2.5 million during fiscal year 2012, including \$1.9 million collected through the MDA lockbox account and \$600,000 collected by the MDA unit.

Specifically, the employee who prepared the bank deposit for collections received directly by the unit was forwarded all related cash receipt records, including the initial check recordation log and related applications for the various registrations. These records were then forwarded to another employee who was responsible for verifying that all recorded collections were deposited. Rather, the check log and the related applications should have been forwarded directly to the individual performing the verifications. Consequently, receipts could be lost or misappropriated without detection. We also noted that this unit's collections were not deposited timely. Our test of 10 deposits made in fiscal years 2010 through 2012, totaling \$406,620, disclosed that all 10 deposits were made from 3 to 11 business days after the dates of receipt.

Additionally, there was a lack of accountability and control over the issuance of the various registrations in this unit. Specifically, MDA did not have a process to ensure the proper amounts were collected and deposited for registrations issued by this unit. MDA's computer system for registrations did not include fields to record financial information, such as the registration fee (which varied based on products registered), amount collected, and date collected. Consequently, MDA did not perform an aggregate reconciliation of the value of registrations issued with the total cash collected and deposited. Furthermore, the employee who initially received cash receipts also recorded the application data in the system and issued the related registrations to the applicant, and this process was not subject to independent supervisory review and approval.

MDA's total collections were approximately \$22 million for fiscal year 2012, including \$9 million collected directly at MDA offices. Similar conditions were commented upon in our four preceding audit reports dating back to 2001.

Recommendation 1

We recommend that MDA

- a. ensure that the documentation used to initially record collections is given directly to an employee independent of the cash receipts and registration functions for deposit verification (repeat);**
- b. ensure that all collections received are deposited in a timely manner (repeat);**
- c. establish a process for supervisory review and approval of registrations issued by an employee independent of the registration and cash receipts processes; and**
- d. implement a procedure to independently reconcile the total value of registrations issued and fees collected according to its records with the related revenues deposited. For example, MDA should consider revising its registration system to include relevant financial data that would facilitate reconciliation to related revenues deposited (repeat).**

We advised MDA on accomplishing the necessary separation of duties using existing personnel.

Purchases and Disbursements

Finding 2

Proper internal controls were not established over the processing of purchasing and disbursement transactions.

Analysis

MDA did not adequately restrict user access capabilities to prevent unauthorized purchasing and disbursement transactions in the State's Financial Management Information System (FMIS). As a result, numerous employees could process critical transactions without independent approval. Our review disclosed that five employees had the capability to initiate and approve certain disbursement transactions without independent approval. Two of these employees processed transactions without independent approval totaling approximately \$28.1 million in fiscal year 2012. Additionally, two other employees were able to initiate purchase orders without independent approval.

According to the State's accounting records, during fiscal year 2012, MDA used FMIS to process disbursements totaling approximately \$64 million. A similar condition has been commented upon in our five preceding audit reports dating back to 1998.

Recommendation 2

We recommend that MDA establish independent online approval requirements for all critical purchasing and disbursement transactions (repeat).

Property

Finding 3

Significant control deficiencies continued to exist over property records and physical inventories.

Analysis

MDA's physical inventory and recordkeeping procedures for property were inadequate and were not in accordance with the Department of General Services (DGS) *Inventory Control Manual*. Specifically, our audit disclosed the following conditions:

- A property control account was not maintained, as required, to provide a continuing summary of transactions and a total dollar value control over amounts recorded in the related detail records. Furthermore, MDA did not maintain detail equipment records for all property items. In this regard, only MDA's Information Technology (IT) and Fleet Units maintained detail records for their computer-related equipment and motor vehicles, which collectively totaled approximately \$6.2 million as of August 2012.
- MDA had not performed complete physical inventories of sensitive and non-sensitive items since 1992 and 1989, respectively. We were advised that a physical inventory of computer equipment was conducted by the IT Unit during our audit period; however, adequate documentation of the physical inventory count and reconciliation to the related detail records was not maintained.
- MDA did not submit an annual report of fixed assets as required by DGS for the periods ending June 30, 2010, 2011, and 2012.

- According to the detail equipment records maintained by the IT Unit, approximately \$300,000 of computer equipment was classified as missing or disposed of. This equipment was not reported to DGS, as required.

Because MDA does not maintain complete detail records, the total value of its property is unknown. According to the State's records, MDA purchased equipment totaling approximately \$2.1 million in fiscal years 2010 through 2012. The failure to maintain adequate accountability and control over equipment has been commented on in our preceding audit reports dating back to 1990. MDA has generally concurred with our recommendations and indicated that appropriate actions would be taken to correct the noted problems. However, little or no action has been taken to correct these deficiencies.

Recommendation 3

We recommend that MDA comply with the *Inventory Control Manual* requirements (repeat).

Accounts Receivable

Finding 4

Procedures and controls over non-cash credit adjustments were not adequate.

Analysis

Procedures and controls over non-cash credit adjustments, which totaled approximately \$1.9 million during fiscal year 2012, were inadequate. Specifically, output reports of non-cash credits processed were not used to verify their propriety by a comparison to the related authorizing documents. In addition, two employees could both initiate and approve non-cash credits and also were involved in the cash receipts function or had access to the related cash receipts. As a result, unauthorized adjustments could be processed and collections could be misappropriated without timely detection. The balance of accounts receivable was approximately \$1.4 million as of June 30, 2012 and primarily related to agricultural services provided, such as to provide assurance that groceries, fuels, and packaged products were accurately weighed and measured. A similar condition was commented upon in our preceding audit report.

Recommendation 4

We recommend that MDA

- a. periodically (for example, monthly) generate output reports of non-cash credit adjustments and ensure that independent personnel verify recorded adjustments to supporting documentation, and**
- b. separate the capabilities for initiating and approving non-cash credit adjustments and ensure these employees do not have access to cash receipts (repeat).**

Audit Scope, Objectives, and Methodology

We have audited the Maryland Department of Agriculture (MDA) for the period beginning July 1, 2009 and ending July 15, 2012. The audit was conducted 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.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MDA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included disbursements for MDA's operating expenditures, as well as payroll, cash receipts, and equipment inventories. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MDA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MDA's compliance with federal laws and regulations pertaining to these programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDA.

MDA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless 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.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MDA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MDA that did not warrant inclusion in this report.

The response from MDA to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDA regarding the results of our review of its response.



Maryland Department of Agriculture

APPENDIX

Agriculture | Maryland's Leading Industry

Office of the Secretary

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April 22, 2013

Thomas J. Barnickel, III, CPA
Legislative Auditor
State of Maryland – Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

Attached you will find our responses to your draft audit report for the Maryland Department of Agriculture for the period ending July 15, 2012.

Per your request, we will submit both paper and electronic copies to:
response@ola.state.md.us.

If you have any questions or specific issues regarding our response, please contact Jim Wallace at 410.841.5855 or via email: James.Wallace@maryland.gov.

Sincerely,

A handwritten signature in cursive script that reads "Earl Hance".

Earl F. Hance
Secretary

Attachment: Draft Audit Report for the Maryland Department of Agriculture

Finding 1**Certain cash receipts were not adequately controlled, verified to deposit, or reconciled with registrations issued.**Department's Response

The Department Concur.

With the cooperation of our Information Technology program, we have been phasing in the lockbox service throughout the Department and are ninety-five percent (95%) complete.

Current Lockbox service is being changed to a new vendor. When this conversion is complete, the remaining programs will be converted.

Although using the Lockbox will help, programs will still receive checks. Therefore, all staff has been reminded that it is imperative that deposits are made in a timely manner.

We are reviewing all programs for independent reconciliation of licenses/registrations issued versus the fees collected and credited to the program. This listing will document the program person responsible and require that documentation of this reconciliation be forwarded to Fiscal Services. This process will be implemented by June 30, 2013.

Finding 2**Proper internal controls were not established over the processing of purchasing and disbursement transactions.**Department's Response

The Department met with DOIT security staff to establish proper internal controls. All profiles and approval paths will be updated and completed by April 15, 2013.

Finding 3**Significant control deficiencies existed over property records and physical inventories.**Department's Response

The Department Concur.

During the last year the Department has taken the following action prior to auditor's arrival:

- 1) New Inventory system has been developed and data has been entered.
- 2) Reconciliation of equipment purchases and data input to inventory system
- 3) Reconciliation of Land, Agricultural Easements, and Buildings completed as of 6/30/12 and reconciled with FMIS.
- 4) Annual report of fixed assets was submitted to DGS on 8/22/12 for FY' 12. A number of categories were reconciled with FMIS fixed assets system.

The Department has changed procedures that will ensure that a physical inventory is performed every three years. Currently, the Department has already completed a physical inventory in several outlying locations and programs within Headquarters. We are continuing this effort and will have completed the entire department by June 30.

We have setup a process that equipment purchases will be reconciled to additions and decreases will be associated with Disposals and/or Missing Property Report in the inventory system.

Finding 4**MDA lacked adequate controls over non-cash credit adjustments.**Department's Response

The Department Concur.

Any non-cash credits will be approved by the Fiscal Administrator.

The Fiscal Administrator will review the output report (DAFR 2261) on a monthly basis.

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