

Audit Report

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**Department of Agriculture**

February 2010

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**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**

**Bruce A. Myers, CPA**  
Legislative Auditor

February 25, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., 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 May 1, 2006 and ending June 30, 2009. MDA's primary purpose is to supervise, administer, and promote agricultural activities throughout the State of Maryland.

This audit report contains seven findings, four of which were repeated from the preceding audit report, with three dating back a number of years. In general, these findings are basic internal control deficiencies and compliance issues that MDA has done little to resolve. Specifically, our audit disclosed that MDA had not established adequate controls over several fiscal functions including cash receipts, disbursements, accounts receivable, corporate purchasing cards, and property.

An Executive Summary of our findings can be found on page 5. 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,

Bruce A. Myers, CPA  
Legislative Auditor



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# Executive Summary

## Legislative Audit Report on the Maryland Department of Agriculture (MDA) February 2010

- **Certain cash receipts were not adequately controlled or verified to deposit. For example, checks were not always restrictively endorsed immediately upon receipt and receipts were not always deposited timely. In addition, there was a lack of accountability and control over the issuance of certain licenses and registration fees.**

MDA should improve controls over cash receipts. In part, MDA should ensure that checks are restrictively endorsed immediately upon receipt and should also ensure deposits are made timely. MDA should also establish accountability and control over licenses and registration fees.

- **Payment processing procedures were not adequate. For example, MDA did not fully use the FMIS security features nor did it always use the appropriate online method for payment transactions. In addition, MDA did not always prepare purchase orders, where applicable, and did not always obtain competitive bids. Finally, statewide contracts were not always utilized and written contracts were not always executed.**

MDA should use the security features and appropriate online payment methods available with FMIS. In addition, MDA should obtain competitive bids and use purchase orders where applicable. Finally, MDA should execute written contracts and utilize statewide contracts when available.

- **Certain control and record keeping deficiencies existed regarding MDA's corporate purchasing cards, equipment, and accounts receivable.**

MDA should take the recommended action to improve controls in these areas.



## **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 to 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 total operating expenditures for fiscal year 2009 were approximately \$115 million.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated January 9, 2007. We determined that MDA satisfactorily addressed one finding. The remaining four findings are repeated in this report.



# Findings and Recommendations

## Cash Receipts

### **Finding 1**

**Certain cash receipts were not adequately controlled, verified to deposit, or reconciled with licenses issued.**

### **Analysis**

Our review of three units, for which cash receipts totaled \$4.9 million, disclosed that the Maryland Department of Agriculture (MDA) had not established adequate controls in two units, which received approximately \$3.5 million during fiscal year 2009. Specifically, in one unit, checks were not restrictively endorsed immediately upon receipt. In the other unit, the employee who prepared the bank deposit had routine access to all related cash receipt records. Additionally, collections were not deposited timely. Our test of 10 deposits totaling \$147,571 at one unit disclosed that 6 deposits totaling \$63,185 were deposited from 5 to 8 business days after the date of receipt. In both units, there was no independent verification that collections initially received and recorded were deposited.

Additionally, there was a lack of accountability and control over the issuance of licenses or registration fees in various MDA units. Specifically, MDA did not reconcile the number of licenses issued with the total cash collected and deposited.

Funds were received by various units within MDA and were subsequently forwarded to the central accounting office for deposit. According to the State's records, during fiscal year 2009, MDA's cash receipts totaled approximately \$30.5 million. Similar conditions were commented upon in our three preceding audit reports dating back to 2001. Furthermore, we tested the same three units last audit and noted little progress towards implementing the prior audit recommendations, even though MDA had agreed to take corrective action.

### **Recommendation 1**

**We recommend that MDA**

- a. restrictively endorse checks immediately upon receipt (repeat),**
- b. ensure that an employee independent of the cash receipts and licensing functions verify that all receipts are deposited (repeat),**
- c. ensure that all collections received are deposited in a timely manner, and**
- d. implement a procedure to independently reconcile the total licenses issued and registration fees collected per its records with the related revenues received (repeat).**

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

## **Purchasing and Disbursements**

### **Finding 2**

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

#### **Analysis**

MDA did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal controls over purchasing and disbursement transactions. Consequently, unauthorized transactions could be processed which may not be readily detected.

For example, three employees could initiate purchase or disbursement transactions that were not subject to independent online authorization. During fiscal year 2009, MDA processed disbursements totaling approximately \$98 million. A similar condition has been commented upon in our preceding audit reports dating back to 1998.

#### **Recommendation 2**

**We recommend that MDA fully use the available FMIS security features by establishing independent online approval requirements for all critical purchasing and disbursement transactions (repeat).**

### **Finding 3**

**MDA's procurement and payment processing procedures were not adequate.**

#### **Analysis**

MDA had not established adequate procurement and payment processing procedures. Specifically our test of 28 payments made during our audit period, which totaled \$569,294, disclosed the following conditions:

- Twenty-one payments totaling \$399,212 were processed using a payment method that allowed for the payment of invoices without electronically matching the purchase order and receiving reports to the invoice to ensure agreement. Furthermore, purchase orders were not prepared for 6 of these 21 procurements totaling \$53,608, nor was there documentation that competitive bids had been obtained. State procurement regulations generally require that all procurements over \$5,000 be competitively bid. The vast majority of the

\$98 million in disbursement transactions processed during fiscal year 2009 were processed using the aforementioned payment method.

Similar conditions were noted during our preceding audit report. The Department of Budget and Management's *Internal Control and Security Policy and Procedures Manual* states that a match payment method should be used for the purchase of services and commodities.

- Three of the payments tested, totaling \$46,846, were for computer-related services that we found were available from existing statewide contracts; however, MDA did not procure these services under those contracts and could not explain the rationale for initiating separate purchases. In addition, although we were advised by MDA management that these purchases were awarded as sole source procurements, MDA lacked written justification for the sole source procurement, which is required by State procurement regulations.
- Two of the payments tested were for veterinarian services procured from two vendors. During the period August 2005 through July 2008, MDA paid these vendors \$85,523, without a written contract detailing the work to be performed or the hourly rates to be charged. We were advised by MDA management that these veterinarians were hired contractually because of the State's hiring freeze imposed on agencies at that time.

### **Recommendation 3**

**We recommend that MDA**

- a. use the appropriate online method to process payment transactions to ensure that purchase orders are prepared for all applicable expenditures and that the purchase orders are matched with the related invoices prior to payment (repeat);**
- b. obtain and document competitive bids, as required;**
- c. use the statewide technology contracts for the procurement of computer services, as required; and**
- d. execute formal written contracts that clearly describe the services to be obtained and the amounts to be paid, and ensure billings are compared to related contract requirements.**

**Finding 4****Adequate controls were not established over corporate purchasing cards.****Analysis**

MDA lacked adequate controls over its corporate purchasing cards (CPC). According to the bank's records, as of June 30, 2009, MDA had 70 active corporate purchasing cards and the related expenditures totaled approximately \$340,000 during fiscal year 2009. Our review disclosed the following conditions:

- Purchasing cards were not promptly cancelled for employees who were no longer employed by MDA. Our test of 10 cards issued to employees who subsequently left MDA during our audit period disclosed that 7 of the cards were not promptly cancelled. Although credit card charges were not incurred by these employees subsequent to their departure, these cards were still active for between 26 and 337 days after the employees left MDA.
- The employee who ordered new cards from the bank also distributed the cards to the applicable MDA employee. While we were advised that the cards were initially received by another employee, this was not documented and there was no verification performed to ensure only authorized cards were received. Consequently, cards could be issued to unauthorized employees and discrepancies could occur without timely detection.

**Recommendation 4****We recommend that MDA**

- a. promptly cancel any corporate purchasing card issued to individuals no longer employed by MDA; and**
- b. ensure that the employee who receives the cards from the bank verify, prior to distribution, that the cards have been properly authorized.**

**Property****Finding 5****Significant control deficiencies existed over property records and physical inventories.****Analysis**

MDA's physical inventory and recordkeeping procedures were inadequate and 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 equipment or property items. In this regard, MDA's Information Technology (IT) Unit was the only Unit that maintained detail records and it only maintained records of MDA's computer-related equipment.
- MDA had not performed complete physical inventories of sensitive or 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 was not maintained so that we could not assess its completeness, and the results of the physical inventory were not reconciled to the related detail records.
- MDA did not submit an annual report of fixed assets as required by DGS for the periods ending June 30, 2006, 2007, 2008, and 2009.
- Our test of 10 disposals of vehicles and computer related-equipment totaling approximately \$74,000 disclosed that all items were removed from the related detail records prior to obtaining DGS approval.

The failure to maintain adequate accountability and control over equipment has been commented on in our MDA audit reports since 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 the noted deficiencies.

#### **Recommendation 5**

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

### **Accounts Receivable**

#### **Finding 6**

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

#### **Analysis**

Procedures and controls over non-cash credit adjustments, which totaled approximately \$1 million during fiscal year 2009, were inadequate. Specifically,

four 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. In addition, one of these employees was responsible for performing the supervisory review of these adjustments. As a result, unauthorized adjustments could be processed and collections could be misappropriated without timely detection.

**Recommendation 6**

**We recommend that MDA ensure that employees do not have the capability to both initiate and approve non-cash credits.**

**Reports Were Not Submitted to the Budget Committees**

**Finding 7**

**MDA did not submit the required reports to the General Assembly's budget committees.**

**Analysis**

Reports requested by the legislative budget committees have not been submitted, as required. Specifically, as of October 15, 2009, MDA has not submitted two reports required by the April 2006 and 2008 *Joint Chairmen's Reports*. One of these reports was to compare and analyze the relationship between MDA's 2007 legislative appropriation and the budgetary and programmatic recommendations of the Agricultural Stewardship Commission and the Maryland Agricultural Commission. The other report was to include information on field personnel requirements of soil conservation districts, as well as funding information pertaining to these districts.

An official of the legislative budget staff advised us that the General Assembly is still interested in having the required information submitted.

**Recommendation 7**

**We recommend that MDA immediately submit the aforementioned reports to the budget committees.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Maryland Department of Agriculture (MDA) for the period beginning May 1, 2006 and ending June 30, 2009. 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

**Martin O'Malley**, Governor  
**Anthony G. Brown**, Lt. Governor  
**Earl F. Hance**, Secretary  
**Mary Ellen Setting**, Deputy Secretary

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February 23, 2010

Mr. Bruce A. Myers, CPA  
Legislative Auditor  
State of Maryland – Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Myers:

Attached you will find our responses to your draft audit report of February 1, 2010.

If you have any specific issues concerning our response contact Jim Wallace at (410) 841-5855.

Sincerely,

Earl F. Hance  
Secretary

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## Responses to Departmental Audit ending June 30, 2009

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### **Finding 1**

**Certain cash receipts were not adequately controlled, verified to deposit, or reconciled with licenses issued.**

It is Departmental policy to restrictively endorse checks upon receipt and to deposit these monies in a timely manner. The Secretary has sent memo out to all programs restating this important policy (attached). The Department is looking into using the lockbox service that is offered through the Treasurer's office. The Department has meeting with lockbox service representatives in early March. The Department feels that using a lockbox services would enhance our control over the cash receipt process.

The Department believes that our Information Technology staff can create and send a report detailing the type and number of licenses that have been issued by the program to Fiscal Services. The accounting staff will review the program's license report and then reconcile with the revenue credited to program in RSTARS.

### **Finding 2**

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

The Department concurs. All corrections have been approved and implemented by December 10, 2009.

### **Finding 3**

**MDA's procurement and payment processing procedures were not adequate.**

The Department concurs. The Department plans to review its small procurement policy and procedures, and insure that it is in compliance with state policy. The Department will use eMaryland marketplace and the state's electronic purchasing system (ADDPICS) wherever possible. Our internal policies should be reviewed and approved senior staff by April 30 and complete employee training and implementation by June 30.

### **Finding 4**

**Adequate controls were not established over corporate purchasing cards.**

The Department concurs. The Department has changed its internal process so that Personnel will collect purchasing card along with ID upon leaving state service. The information and card will then be forwarded to purchasing card coordinator. The Department will review its distribution process and implemented the necessary changes to strengthen our internal processes.

### **Finding 5**

#### **Significant control deficiencies exist over property records and physical inventories.**

The Department Concur. The Department has been delinquent in this area. The Department will setup a task force that will review DGS procedures related to this deficiency. The task force will then make recommendations to Department senior's staff. Additional resources will be provided during the initial implementation. Task force will be appointed and have recommendations to senior staff by July, 2010. Implementation will start in August, 2010. However, completion will not be until June 2011.

### **Finding 6**

#### **Procedures and controls over cash credit adjustments were not adequate.**

The Department concurs. Fiscal Services will review the allocation of duties for employees to initiate or approve adjustments and have them independent of the cash receipts process. Corrections will be made by March 10.

### **Finding 7**

#### **MDA did not submit the required reports to the General Assembly's budget committees.**

The Department concurs. The required reports were sent January 4, 2010.

**AUDIT TEAM**

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