

Audit Report

Maryland Food Center Authority

January 2008



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

January 22, 2008

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 Food Center Authority (MFCA) for the period beginning December 21, 2004 and ending August 21, 2007.

Our audit disclosed that the MFCA lacked adequate internal controls to verify that cash collections, both those received in the mail and those received at its produce and seafood markets, were deposited.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Food Center Authority (MFCA) is an instrumentality of the State of Maryland and a public corporation. The primary purpose of MFCA is to establish, maintain, operate, and promote consolidated food markets within the State. MFCA owns and operates the Maryland Wholesale Produce and Seafood Markets which are located in Jessup, Maryland.

MFCA receives no State general funds and its operations are primarily funded through entrance/registration fees and rental income that are generated from the operation of the produce and seafood markets. According to its audited financial statements, MFCA's operating revenues and expenses totaled \$4.2 million and \$3.9 million, respectively, for the fiscal year ended June 30, 2007.

Financial Statement Audits

MFCA engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2005, 2006, and 2007. In the related audit reports, the firm stated that MFCA's financial statements presented fairly, in all material respects, its financial position and results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Current Status of Findings From Preceding Audit Report

We reviewed the current status of the two findings contained in our preceding audit report, dated May 23, 2005. We determined that MFCA satisfactorily addressed one of these items. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

MFCA lacked controls to ensure all collected cash receipts were deposited.

Analysis

The Maryland Food Center Authority (MFCA) lacked adequate controls over its cash receipts. Specifically, MFCA did not verify that recorded cash receipts were

deposited. According to the State's accounting records, MFCA deposited cash receipts that totaled approximately \$4.5 million during fiscal year 2007.

MFCA collected cash receipts both through the mail and at its produce and seafood markets. Payments received in the mail were recorded in a computerized check log; cash receipts collected by the markets were recorded in cash registers. The Comptroller of the Treasury's *Accounting Procedures Manual* requires that amounts recorded on initial source documents be traced to deposit by an employee independent of the cash receipts functions. A similar condition was commented upon in our preceding audit report.

Recommendation 1

We again recommend that an employee independent of the cash receipts functions verify that all recorded cash receipts are deposited, and that this verification be documented. We advised MFCA on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Food Center Authority (MFCA) for the period beginning December 21, 2004 and ending August 21, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MFCA's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the fiscal/compliance 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 MFCA'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 scope was limited with respect to MFCA's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all MFCA cash transactions

prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records. MFCA'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 a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MFCA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report does not include any findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MFCA that did not warrant inclusion in this report.

MFCA's response 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 MFCA regarding the results of our review of its response.

APPENDIX



7801 Oceano Avenue
Jessup, Maryland 20794
Tel: 410.379.5760
Fax: 410.379.5773

January 17, 2008

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 W. Preston Street - Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

We have received the draft Legislative Auditor's report for the period beginning December 21, 2004 and ending August 21, 2007.

We have reviewed the Auditor's comment regarding an internal control deficiency with respect to cash receipts. The following step has been included in the MFCA's procedures to correct this concern.

Cash Receipts: The Maryland Food Center Authority uses a courier service to transport daily deposits to the bank. Once the deposit is made and the courier returns to the MFCA, Sheree Brannan, an employee independent of the cash receipts function, will verify that all recorded cash receipts were deposited. She will acknowledge this verification by initialing the deposit slip.

We appreciate the recommendation of the Legislative Auditor and the suggestion offered to bring the MFCA in compliance with the Comptroller of the Treasury's Accounting Procedures Manual. In addition to the above mentioned change, the MFCA has implemented other procedures to further strengthen the Authority's internal control.

Best regards,

Donald J. Darnall

cc: Elizabeth Sandra Vary, Chair

AUDIT TEAM

Peter J. Klemans, CPA
Audit Manager

Susanne M. Anacker
Senior Auditor