

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

January 28, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Edward J. Kasemeyer, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the Maryland Department of Agriculture (MDA) to resolve the four repeat findings in our April 24, 2013 audit report. This review was conducted in accordance with a requirement specified in the April 2014 *Joint Chairmen's Report* (JCR), page 68. The JCR required that, prior to release of \$100,000 of its administrative appropriation for fiscal year 2015, MDA must take corrective action on all repeat audit findings. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each repeat finding was corrected within sufficient time to allow 45 days for the budget committees to review and release the funds prior to the end of fiscal year 2015.

The April 24, 2013 MDA audit report contained four repeat audit findings (findings 1 through 4). In accordance with the aforementioned JCR requirement, MDA provided a report to OLA, dated August 1, 2014, detailing the corrective actions that MDA has taken with respect to these repeat audit findings. We reviewed this report and related documentation, performed limited tests and analyses of the information, and held discussions with MDA personnel, as deemed necessary, to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Exhibit 1 is MDA's August 1, 2014 status report, which indicated that certain corrective action had been taken to address the recommendations for all four findings, although for two findings the indicated actions suggest they were not yet complete, but ongoing. Our review determined that MDA had not taken the necessary correction actions to satisfactorily implement all the recommendations for any of the four findings.

Senator Edward J. Kasemeyer
Delegate Maggie McIntosh


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January 28, 2015

A summary of OLA's assessment of the status of each of the repeat audit findings is included in the attached Exhibit 2. Exhibit 3 contains OLA's assessments regarding the four repeat findings that had not been resolved. After discussing our review results, MDA generally agreed with the accuracy of the information presented and indicated that the remaining corrective actions will be taken. We wish to acknowledge the cooperation extended to us by MDA during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,


Thomas J. Barnickel III, CPA
Legislative Auditor

cc: Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
David R. Brinkley, Acting Secretary, Department of Budget and Management
Joseph Bartenfelder, Acting Secretary, Maryland Department of Agriculture
Mary E. Setting, Deputy Secretary, Maryland Department of Agriculture
James P. Wallace, Director Administrative Services, Maryland Department of Agriculture
Joan Peacock, Manager, Audit Compliance Unit, DBM
Karl S. Aro, Executive Director, Department of Legislative Services
Andrew Gray, Policy Analyst, Department of Legislative Services



Maryland Department of Agriculture

Office of the Secretary

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

The Wayne A. Cawley, Jr. Building
50 Harry S. Truman Parkway
Annapolis, Maryland 21401
Internet: www.mda.maryland.gov

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410.841.5700 Baltimore/Washington
301.261.8106 Washington, D.C.
410.841.5914 Fax
800.492.5590 Toll Free

August 1, 2014

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

Re: Audit of Maryland Department of Agriculture Report Date: April 24, 2013

Dear Mr. Barnickel:

Per your request, the Department's Audit Action Plan as of July 31, 2014 is attached for your review. As required, both electronic and paper copies will be provided.

The Audit Action Plan stipulates corrective actions that have been taken in response to the audit report issued by the Office of Legislative Audits on April 24, 2013. As a consequence of the four repeat findings, the Joint Chairmen's Report contained language prohibiting the Department from spending \$100,000 of our administrative appropriation unless corrective action is taken.

It is our sincere wish that the Office of Legislative Audits review of the Department's corrective actions will be favorable thereby allowing the budget committees to review and release funds prior to the end of fiscal year 2015.

Please let us know if you have any questions or concerns.

Sincerely,

Earl F. Hance
Secretary

Attachment: Maryland Department of Agriculture's (MDA) Audit Action Plan

Cc: Mary Ellen Setting, MDA Deputy Secretary
James Wallace, MDA Director of Administration

**Maryland Department of Agriculture
Audit Action Plan
As of 31-Jul-14**

Finding #	Finding / OLA's Recommendation	Department's response	Department Follow-up	Date Completed
1.	Certain cash receipts were not adequately controlled, verified to deposit, or reconciled with registrations issued.			
a.	Ensure that the documentation used to initially record collections is given directly to an employee independent of cash receipts and registration functions for deposit verification	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 (1-15-13). Current Lockbox service is being changed to a new vendor by Treasurer's office. When this conversion is complete, the remaining programs will be converted. (10-30-13).	Current Lockbox service has been expanded to all licensing / registration programs.	1/15/14
b.	Ensure that all collections received are deposited in a timely manner	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.	Secretary Hance sent email to all program managers to remind them that timely deposits are required and has had follow-up discussions with program managers during staff meetings.	On-going
c.	Establish a process for supervisory review and approval of registrations issued by an employee independent of registration and cash receipts processes.	This is already an established procedure within the Department.		On- going

**Maryland Department of Agriculture
Audit Action Plan
As of 31-Jul-14**

Finding #	Finding / OLA's Recommendation	Department's response	Department Follow-up	Date Completed
d.	Implement a procedure to independently reconcile the total value of registrations issued and fees collected according to its records with related revenues deposited.	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.	The results of our reconciliation have found a problem in our licensing application database, which our IT staff is looking into. Obtained 100% compliance for FY'13.	On-going
2.	Proper internal controls were not established over the processing of purchasing and disbursement transactions.			
	We recommend that MDA establish independent online approval requirements for all critical purchasing and disbursement transactions.	The Department will be meeting with DOIT security staff (Bonnie Hudson) to establish proper internal controls. All profiles and approval paths will be updated and completed by December 31.	MDA staff meets with DOIT security and all issues have been corrected.	4/30/2012

**Maryland Department of Agriculture
Audit Action Plan
As of 31-Jul-14**

Finding #	Finding / OLA's Recommendation	Department's response	Department Follow-up	Date Completed
3.	Significant control deficiencies existed over property records and physical inventories.			
	We recommend that MDA comply with Inventory Control Manual requirements.	<p>During the last year the Department has taken the following action prior to auditor's arrival:</p> <ol style="list-style-type: none"> 1) New Inventory system has been developed and data has been entered. <p>New Inventory system has been developed and data has been entered, reconciled and control account established (4/30/13).</p> <ol style="list-style-type: none"> 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. 	<p>We are modifying the inventory system to make it more user friendly and expand its reporting capability.</p> <p>An inventory of sensitive items will be completed each year, reconciled, and documentation will be maintained. The Department plans to be in compliance with the DGS Inventory Control Manual.</p> <p>Currently, not completed on a regular basis. Our goal will be to complete reconciliation on a monthly basis starting in FY'15.</p> <p>This has been completed the last 3 years and completed on an annual basis.</p>	<p>8/30/2014</p> <p>On-going</p> <p>6/30/2015</p> <p>On-going</p>

**Maryland Department of Agriculture
Audit Action Plan
As of 31-Jul-14**

Finding #	Finding / OLA's Recommendation	Department's response	Department Follow-up	Date Completed
		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.	Physical Inventory has been completed. Schedule of physical inventory will be established.	On-going
4.	MDA lacked adequate controls over non-cash credit adjustments.			
a.	Periodically (for example, monthly) generate output reports of non-cash credit adjustments and ensure that independent personnel verify recorded adjustments to supporting documentation	Any non-cash credits will be approved by supervisory level employees. The Department currently reviews the output report (DAFR 2261) on a daily basis. We will review capability of staff in this area with DOIT security staff.	Reviewed by Fiscal Admin. On monthly basis.	3/30/2013

Maryland Department of Agriculture
Audit Action Plan
As of 31-Jul-14

Finding #	Finding / OLA's Recommendation	Department's response	Department Follow-up	Date Completed
b.	Separate the capabilities for initiating and approving non-cash credit adjustments and ensure these employees do not have access to cash receipts	The Fiscal Administrator for The Department will verify supporting documentation on any non-cash credits. The Fiscal Administrator is independent of the cash receipts and credit initiation process.		3/30/2013

Exhibit 2 to January 28, 2015 Letter to Joint Chairmen

Status of Repeat Findings in OLA's April 24, 2013 Audit Report on the Department of Agriculture

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Cash Receipts 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.	Not Resolved
b. ensure that all collections received are deposited in a timely manner.	Corrected
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.	Not Resolved
Purchases and Disbursements 2. We recommend that MDA establish independent online approval requirements for all critical purchasing and disbursement transactions.	Not Resolved
Property 3. We recommend that MDA comply with the <i>Inventory Control Manual</i> requirements.	Not Resolved
Accounts Receivable 4b. We recommend that MDA separate the capabilities for initiating and approving non-cash credit adjustments and ensure these employees do not have access to cash receipts.	Not Resolved

Shaded recommendations are more fully described in Exhibit 3.

Exhibit 3 to January 28, 2015 Letter to Joint Chairmen

OLA's Assessments Regarding Repeat Findings That Had Not Been Resolved

Cash Receipts

Prior Report Recommendation – Finding 1

We recommend that MDA

- a. ensure that documentation used to initially record collections is given directly to an employee independent of the cash receipts and registration functions for deposit verification (repeat).**
- 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 (repeat).**

Status: Not Resolved

Our review noted that the documentation used to record collections was not given directly to an employee independent of the cash receipts and registration functions for deposit verification. Rather, a copy of the original record of collections was first provided to the employee who prepared the deposit, and that employee forwarded the record to an independent employee for deposit verification. Although MDA initiated procedures to reconcile the total value of commercial feed and pesticide registrations issued to the related fees deposited, these procedures were not adequate to ensure that the proper amounts were collected. For example, for one registration type, the number of registrations issued that was used in the reconciliation process was merely calculated by dividing the total amount collected by the value of an individual registration, without ensuring that the result agreed with the record of actual registrations issued.

Purchases and Disbursements

Prior Report Recommendation – Finding 2

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

Status: Not Resolved

Although MDA eliminated the ability to process critical purchasing and disbursement transactions for four of the five employees noted in the audit report, our review noted one of those employees, plus two additional employees, could still process certain critical purchasing and disbursement transactions without independent approval.

Property

Prior Report Recommendation – Finding 3

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

Status: Not Resolved

Although MDA's status report stated that a new inventory system had been developed and a control account established, we found that establishment of a control account was still in process. Physical inventories of sensitive and non-sensitive equipment have been completed; however, MDA is still in the process of reconciling the inventory results to the related detail records and ensuring the accuracy of those records to include all property items. Finally, annual reports of fixed assets were submitted to the Department of General Services for fiscal years 2013 and 2014.

Accounts Receivable

Prior Report Recommendation – Finding 4b

We recommend that MDA separate the capabilities for initiating and approving non-cash credit adjustments and ensure these employees do not have access to cash receipts (repeat).

Status: Not Resolved

Our review noted six system users who could initiate and approve non-cash credit adjustments without independent approval. One of these employees also had access to the related cash receipts, as compared to two employees in our audit report. In its status report, MDA described a manual process to mitigate the impact of the above weakness by having an independent supervisor verify all non-cash credits to supporting documentation; however this employee could also process non-cash credits and, consequently, was not independent of the process.