

Audit Report

Department of Agriculture

December 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Carol L. Krimm (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Mark S. Chang
Senator George C. Edwards	Delegate Andrea Fletcher Harrison
Senator Katie Fry Hester	Delegate Keith E. Haynes
Senator Cheryl C. Kagan	Delegate Michael A. Jackson
Senator Benjamin F. Kramer	Delegate David Moon
Senator Cory V. McCray	Delegate April R. Rose
Senator Justin D. Ready	Delegate Geraldine Valentino-Smith
Senator Craig J. Zucker	Delegate Karen Lewis Young

To Obtain Further Information

Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

December 14, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Agriculture (MDA) for the period beginning August 21, 2015 and ending December 15, 2019. MDA's primary purpose is to supervise, administer, and promote agricultural activities throughout the State of Maryland.

Our audit disclosed that MDA did not have comprehensive procedures for inspecting farms that received grants under its Cover Crop Program, and did not adequately monitor inspections of Cover Crop Program grantees conducted by local Soil Conservation District offices. Furthermore, based on referrals received through our fraud, waste, and abuse hotline, we identified instances where MDA did not take required action when grantees were found to be noncompliant with the terms of their grant agreements.

Our audit also disclosed that MDA had not established adequate controls over cash receipts and certain related product registrations, and that MDA's physical inventory and recordkeeping procedures for equipment were inadequate and not in accordance with State policy.

Finally, our audit included a review to determine the status of the two findings contained in our preceding audit report. We determined that MDA did not satisfactorily address these findings, both of which are repeated in this report. In this regard, the lack of adequate controls over certain product registrations and related fees, and inadequate physical inventory and recordkeeping procedures for equipment, have been commented upon in our preceding audit reports dating back to 2007 and 1990, respectively.

MDA's response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by MDA and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Maryland Agricultural and Resource-Based Industry Development Corporation	4
Law and Audit Scope Change – Maryland Agricultural Land Preservation Fund	4
Status of Findings From Preceding Audit Reports	5
Findings and Recommendations	6
Cover Crop Program	
Finding 1 – The Maryland Department of Agriculture (MDA) had not established comprehensive procedures for Soil Conservation Districts to perform inspections of farms in the Cover Crop Program, did not adequately monitor the inspections, and did not take required action when inspections identified grantees that were noncompliant with the related grant agreement.	7
Cash Receipts	
* Finding 2 – MDA did not segregate duties for collections, and did not ensure that certain product registrations were proper and the related fees were collected and deposited.	10
Equipment	
* Finding 3 – MDA’s physical inventory and equipment recordkeeping procedures were inadequate and were not in accordance with State policy.	12
Audit Scope, Objectives, and Methodology	14
Agency Response	Appendix

* 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 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 expenditures for fiscal year 2019 totaled approximately \$113.5 million.

Maryland Agricultural and Resource-Based Industry Development Corporation

State law provides for an annual appropriation in MDA's budget to fund the Maryland Agricultural and Resource-Based Industry Development Corporation (Corporation). The Corporation was created by State law as a public corporation and an instrumentality of the State. In accordance with State law, the Corporation engaged an independent public accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2017, 2018, and 2019. In the related audit reports, the firm stated that these financial statements presented fairly, in all material respects, the financial position of the Corporation as of June 30, 2017, 2018, and 2019, and the changes in its net position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. We relied on the work of the independent accounting firm to provide audit coverage of certain aspects of the Corporation's operations as further described in our Audit Scope, Objectives, and Methodology section beginning on page 14. Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

Law and Audit Scope Change – Maryland Agricultural Land Preservation Fund

Our current audit included the activities of the Maryland Agricultural Land Preservation Foundation (MALPF), which was previously audited by our Office

annually in accordance with State law. Chapter 49, Laws of Maryland, 2016, effective July 1, 2016, eliminated the requirement for annual audits, and established that MALPF shall be subject to audit at the same three to four year interval established in the law for the audit of all units of State government. Our last annual audit of MALPF was for the year ending June 30, 2015, and our report was issued on April 18, 2016.

MALPF, which is governed by a Board of Trustees consisting of 13 members, purchases land easements with General Obligation Bonds and Maryland Agricultural Land Preservation Fund (Fund) revenue and places certain restrictions on the use of the land. (For example, the land may be restricted from subdivision for residential or commercial purposes.) The Fund, generally derives revenues from State transfer taxes, agricultural transfer taxes, and local subdivision matching funds. According to its records, since inception through June 30, 2019, MALPF had purchased 2,347 easements on 318,216 acres of land for a total cost of approximately \$752.6 million.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated May 5, 2016. As disclosed in the following table, we determined that MDA did not satisfactorily address these findings, both of which are repeated in this report. The preceding audit report of MALPF dated April 18, 2016 did not contain any findings.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Adequate controls were not established over cash receipts and the related registrations issued in one unit.	Repeated (Current Finding 2)
Finding 2	Control deficiencies exist over equipment records and physical inventories.	Repeated (Current Finding 3)

Findings and Recommendations

Cover Crop Program

Background

The Maryland Department of Agriculture (MDA) administers the State's Cover Crop Program which provides grants to farmers to help offset seed, labor, and equipment costs to plant cover crops in fields following the harvest of summer crops. A significant portion of the funding for the Cover Crop Program is provided through MDA's grant agreement with the Maryland Department of Natural Resources (DNR). According to MDA, cover crops help improve soil quality, manage soil erosion, and protect water quality by recycling unused nutrients in the soil. For 2019-2020, the base payment under the Cover Crop Program was \$45 to \$50 per acre, but payments may be higher based on factors such as the seeding method used and when the crop is terminated the following spring (see table below). According to MDA's records, during the 2019-2020 planting season, approximately \$26.6 million was paid to 1,460 grantees for cover crops related to 485,206 acres.

2019-2020 COVER CROP PLANTING AND PAYMENT OPTIONS					
TRADITIONAL COVER CROP PAYMENT OPTIONS	NO-TILL	CONVENTIONAL	BROADCAST WITH LIGHT, MINIMUM OR VERTICAL TILLAGE	AERIAL	BROADCAST STALK CHOP, AERIAL GROUND, AND BROADCAST CULTIPACKER
Base payment:	\$45/acre	\$45/acre	\$45/acre	\$50/acre	\$45/acre
Plant by October 1, <i>add</i> :	\$20/acre	\$10/acre	\$10/acre	\$0/acre	\$0/acre
or Plant by October 15, <i>add</i> :	\$10/acre	\$5/acre	\$5/acre	\$0/acre	\$0/acre
Aerial seed cover crop into standing corn between August 15 and September 1, <i>add</i> :	\$0/acre	\$0/acre	\$0/acre	\$10/acre	\$0/acre
Terminate cover crop after May 1, <i>add</i> :	\$15/acre	\$15/acre	\$15/acre	\$15/acre	\$15/acre
Plant rye (no mixes), <i>add</i> :	\$10/acre	\$10/acre	\$10/acre	\$10/acre	\$10/acre
Maximum Payment Amount:	\$90/acre	\$80/acre	\$80/acre	\$85/acre	\$70/acre

The 2019-2020 Cover Crop Program is administered by the Maryland Agricultural Water Quality Cost-Share (MACS) Program and funded by the Chesapeake Bay Restoration Fund and the Chesapeake and Atlantic Coastal Bays Trust Fund.

Source: MDA's 2019-2020 Cover Crop brochure

Farmers apply annually to their local Soil Conservation District (SCD) office for participation in the Program. There are 24 SCD offices in Maryland, each of which operate as independent entities under a local five-member board of supervisors. SCDs are funded through a combination of federal, State, and local assistance. For example, MDA's Office of Resource Conservation provides the State's SCDs with operating funds and staffing support to help administer the MDA's conservation and water quality programs, such as the Cover Crop

Program. Program applications are initially processed at individual SCDs and then forwarded to MDA for review and approval, resulting in a grant agreement between the farmer (grantee) and MDA.

Grant requirements include the use of certain eligible crops and planting methods, a specified volume of seed planted per acre, as well as compliance with planting and crop termination schedules. MDA relies on each SCD to conduct on-site inspections of grantee farms in the fall and spring and report the results. These inspections are the primary means by which MDA ensures grantee compliance with the terms of the grant agreement.

We received referrals to our fraud, waste, and abuse hotline regarding concerns with MDA not taking sufficient action when grantees were noncompliant with the terms of the Cover Crop grants. As a result, we reviewed the processes used by MDA and the SCDs to monitor the Cover Crop grants and actions taken to address deficiencies identified during inspections. Based on our review, we were able to substantiate the concerns raised in the allegations, addressing a general lack of Program monitoring. However, the results of our review of the allegation did not identify any issues that warranted a referral to the Office of the Attorney General – Criminal Division.

Finding 1

MDA had not established comprehensive procedures for SCDs to perform inspections of farms in the Cover Crop Program, did not adequately monitor the inspections, and did not take required action when inspections identified grantees that were noncompliant with the related grant agreement.

Analysis

MDA had not established comprehensive written procedures for SCDs to perform inspections of farms in the Cover Crop Program, did not adequately monitor the inspections, and did not take required action when inspections identified grantees that were noncompliant with the related grant agreement.

MDA Did Not Establish SCD Inspection Procedures or Adequately Monitor SCD Inspections

MDA did not have written procedures governing the amount of farmland to be examined by SCDs and the methodology to be used for SCD inspections, and did not adequately monitor SCD inspections to ensure compliance with grant requirements. Although MDA had certain processes in place for monitoring SCD inspection results, these processes were not sufficient. For example, MDA's review of SCDs reports of inspection results did not always identify instances when SCDs failed to inspect the required amount of farmland. Furthermore,

MDA did not verify the inspections reported by the SCDs through on-site examinations of randomly selected farms. As a result, we noted several issues with the SCD inspections, which were not identified and addressed by MDA, as further described below.

SCD Inspections Were Inadequate and Inconsistent

We reviewed the procedures used for inspections by five SCDs, and analyzed certain other inspection data reported by all SCDs for the fall of 2019. Our review disclosed that the inspections were not sufficiently comprehensive, that the methods used to conduct the inspections were not consistent between each SCD, and that certain reported inspections appeared questionable.

- The amount of farmland inspected by each SCD was not consistent and not always compliant with MDA's agreement with DNR, which provides a significant portion of the funding for the Cover Crop Program. Furthermore, the agreement between MDA and each farmer was not consistent with the DNR agreement. The DNR agreement requires that MDA provide for inspection of 20 percent of each grantee's total acres, while MDA's agreement with each farmer calls for inspection of an average of 20 percent of the grantees' farms/fields. Our review of the five SCDs disclosed the following:
 - Two SCDs inspected 20 percent of each grantee's total number of acres
 - Two SCDs inspected 20 percent of each grantee's total number of fields¹
 - One SCD inspected 20 percent of each grantee's total farm(s)².
- The method used to perform the inspections were not consistent. Specifically, four SCDs advised us that inspections were typically performed from the inspector's vehicle while driving around the grantees' field(s), and one SCD stated that the inspector walked the field on foot (obtaining a more detailed assessment of the grantees' compliance).
- None of the five SCDs verified that all grantees inspected complied with the seeding rate specified in the grant agreement. The required seeding rate (pounds or bushels of seed per acre) differed based on the cover crop being planted, and could range between 8 and 120 pounds per acre depending on the crop. Seeding rates are a critical provision of each grant agreement, and according to MDA, can be evaluated by examining the number of plants in a given area.
- SCDs did not always expand the inspections when suspected noncompliance was identified. Specifically, two SCDs advised us that they did not expand

¹ A field is a specific area of land on a farm separated by boundaries from other parts of the farm.

² A farm contains one or more fields in a particular area.

the amount of acres/farms inspected when they noted deficiencies during the inspection if they felt that the grantee had made an honest mistake. However, these SCDs could not document how they would determine whether the deficiency noted was an honest mistake or intentional noncompliance. The other three SCDs advised us that inspections were expanded to all of a grantee's fields when problems were identified. Inspectors may initially question, for example, a farmer's assertion of when the crop was planted based on the level of growth observed, thereby prompting inspection of all fields.

- The number of inspections and/or the amount of farmland inspected as reported by certain SCDs appeared questionable. For example, one SCD inspector reported inspecting 439 fields totaling 8,150 acres in a single day. Another inspector examined 61 fields totaling 1,435 acres on a weekend day for which no worktime was recorded on the inspector's timesheet. Finally, one inspector reported examining 73 fields totaling 1,255 acres on a day on which the inspector was on leave according to the individual's timesheet. Although there may be legitimate explanations for these circumstances, such explanations were not provided by the SCDs, and lacking that, it is incumbent upon MDA to identify and investigate questionable inspections completed.

MDA Did Not Take Required Action for Noncompliant Grantees

MDA did not take corrective action when inspections identified noncompliance with MDA/farmer grant requirements. The grant agreements require that MDA cancel the grant for any instance of noncompliance. Our review of six 2019-2020 grants for which inspectors reported instances of noncompliance, such as a failure to use the required seeding rate, disclosed that none of the respective grants were cancelled. Instead, MDA took other actions, which were not provided for in the grant agreement. For example, three of the six grantees failed to comply with certain grant requirements and MDA negotiated lower per acre grant payments instead of cancelling the grants. The agreements with these three grantees initially provided for potential payments of \$125,000 and MDA ultimately paid these grantees \$93,000. MDA could not provide us with any documentation to support the revised payments for the noncompliant grantees, or legal justification for varying from the penalty provision included in the agreements.

Recommendation 1

We recommend that MDA

- a. establish comprehensive written procedures governing SCDs' performance and reporting of Cover Crop Program inspections, including instruction regarding the basis and method to be used for conducting inspections, a requirement to address all critical grant**

- provisions when conducting inspections, and steps to take when noncompliance is suspected;
- b. ensure that its grant agreements with farmers are consistent with the inspection requirements included in its agreement with DNR for Program funding;
 - c. adequately monitor inspections conducted by SCDs by conducting, on a test basis, on-site examinations of inspected farmland, identifying and investigating questionable inspections including those noted above, and ensuring that at least the minimum required amount of farmland is inspected for each grantee; and
 - d. cancel grant agreements, as required, when inspections identify noncompliance with critical grant provisions.

Cash Receipts

Finding 2

MDA did not segregate duties for collections, and did not ensure that certain product registrations were proper and the related fees were collected and deposited.

Analysis

MDA had not established adequate controls over cash receipts and certain product registrations. Most of the collections received directly by MDA, which according to State records totaled approximately \$3.1 million during fiscal year 2019, were received in other MDA units and then transferred to the Fiscal Services Office for centralized deposit. We reviewed procedures and controls over cash receipts and related registrations processed by the Office and at one MDA unit that received collections totaling \$270,000 during fiscal year 2019.

- The employee in the unit who received collections for product registrations, such as for commercial feed and pesticides, also had the ability to issue the related registrations on the automated system. According to MDA's records, during calendar year 2019, the unit issued 37,801 registrations.
- MDA did not independently reconcile the value of registrations issued by the unit with the corresponding collections deposited by the Office to ensure that the proper amounts were collected and deposited for all registrations issued by the unit.
- MDA did not ensure all registrations issued by the unit were subject to independent review and approval. Specifically, although a supervisor

reviewed and approved registration applications recorded in the system prior to final issuance, MDA did not ensure that all registrations issued were subject to supervisory review. Four employees, including the aforementioned employee who received collections, had full system access to issue registrations, and therefore it is critical that procedures be implemented to ensure the propriety of issued registrations, such as an examination of output reports of registrations issued.

- An employee in the Office who verified collections to deposit also processed and remotely deposited collections.

The lack of an independent reconciliation of the total value of registrations issued and fees collected has been commented upon in our four preceding audit reports dating back to 2007. The lack of an independent process for supervisory review and approval of registrations issued was commented upon in our two preceding audit reports dating back to 2013. In its response to our preceding audit report, MDA stated that steps had been taken to comply with our recommendations, and that MDA would reconcile registrations issued with fees collected on a monthly basis.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that the total value of registrations issued should be reconciled with the total collections received for those registrations. The *Manual* also requires that recorded collections be reconciled to amounts deposited by an employee independent of the collection process.

Recommendation 2

We recommend that MDA

- a. establish a process for independent supervisory review and approval of registrations issued by an employee independent of the registration and cash receipts processes (repeat),**
- b. independently reconcile the total value of registrations issued and fees collected according to its records with the related revenues deposited (repeat), and**
- c. ensure that an employee independent of the collection process performs the verification of collections to deposit.**

We advised MDA how to achieve the necessary separation of duties using existing personnel.

Equipment

Finding 3

MDA's physical inventory and equipment recordkeeping procedures were inadequate and were not in accordance with State policy.

Analysis

MDA's physical inventory and equipment recordkeeping procedures were inadequate and were not in accordance with the Department of General Services (DGS) *Inventory Control Manual*. According to MDA's records, its equipment inventory as of June 30, 2019 totaled approximately \$9.3 million.

- Physical inventories of certain sensitive and non-sensitive equipment were not performed as required. Specifically, as of June 2019, there were 5,177 sensitive items with a recorded cost of approximately \$4.6 million that had not been inventoried within one year as required. Of this total, 3,020 items with a recorded cost of \$2.8 million had not been inventoried within the last three years. In addition, as of June 2019, there were 4,722 non-sensitive items with a recorded cost of \$4.4 million that had not been inventoried within three years as required.
- Equipment items were not always properly recorded in the detail equipment records. Our test of 14 equipment purchases totaling approximately \$407,000 made prior to August 2019, disclosed 13 purchases totaling \$393,000, which, as of December 2019, had not been recorded in the detail records. We also noted 112 items totaling \$56,000 that had been incorrectly classified in the detail records as non-sensitive even though they met the criteria for sensitive items. These items included cameras, computer monitors, and printers.
- An equipment control account was not maintained to provide a continuous summary of transactions and a total dollar value control over amounts included in the detail records.

The DGS *Inventory Control Manual* requires a control account to be maintained and periodically reconciled to the related detail records, sensitive equipment to be inventoried annually, and non-sensitive equipment to be inventoried every three years. The *Manual* also requires detailed records be properly maintained.

Similar conditions regarding adequate accountability and control over equipment have been commented on in our preceding audit reports dating back to 1990. In its response to our preceding audit report, MDA noted that it had worked to set up a new database, perform physical inventories, and establish a good control

account, and that work was continuing to ensure compliance with the DGS *Inventory Control Manual*. Considering the number of years over which these conditions have gone uncorrected, we believe MDA should consider seeking specific assistance from DGS for establishing, monitoring, and maintaining compliance with the aforementioned *Manual* requirements.

Recommendation 3

We recommend that MDA comply with the *Inventory Control Manual* requirements (repeat), and if necessary seek specific assistance from DGS for establishing, monitoring, and maintaining compliance with those requirements.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Agriculture (MDA) for the period beginning August 21, 2015 and ending December 15, 2019. 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 the 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included disbursements, cash receipts, grants, payroll, budgetary closeout transactions, corporate purchasing cards, and equipment. In addition, we examined the Maryland Agricultural Land Preservation Fund. We also determined the status of the findings included in our preceding audit report.

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

Our audit also did not include an examination of the Maryland Agricultural and Resource-Based Industry Development Corporation (Corporation), which was created by State law as a public corporation and an instrumentality of the State, with a mission to promote the viability and profitability of Maryland's agriculture, forestry, and seafood industries through specialized economic development assistance programming. The law provides for an annual appropriation in the State budget to the Corporation and specifies that the books, records, and accounts of the Corporation are subject to audit by the State and by an independent auditor. The Corporation engaged an independent public accounting firm to perform audits of its annual financial statements. In the related audit reports for the fiscal years ended June 30, 2017, 2018, and 2019 the firm stated that these financial statements presented fairly, in all material respects, the financial position of the Corporation, and the changes in its net position and its cash flows for the years

then ended, in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of the Corporation's operations (loans receivable, payroll). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of August 21, 2015 to December 15, 2019, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MDA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from various key MDA internal systems, such as the Cover Crop Program application database, for the purpose of testing awarding and monitoring of Cover Crop Program grant awards. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MDA, were considered by us during the course of this audit.

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 related 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.

MDA'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 MDA regarding the results of our review of its response.

APPENDIX



Maryland Department of Agriculture

Office of the Secretary

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
Joseph Bartenfelder, Secretary
Julianne A. Oberg, Deputy Secretary

Administration

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

Agriculture | Maryland's Leading Industry

410.841.5855 Baltimore/Washington
410.841.5846 Fax
800.492.5590 Toll Free

December 9, 2020

Mr. Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Room 1202
301 West Preston Street
Baltimore, MD 21201

Re: Legislative Fiscal Compliance Audit – Maryland Department of Agriculture (MDA)

Dear Mr. Hook:

Enclosed, please find the Maryland Department of Agriculture's response to the draft Legislative Auditor's Report for the period beginning August 21, 2015 and ending December 15, 2019. An electronic copy of our response has been emailed to response@ola.state.md.us. As noted in our response, corrective action has been taken by the Department to implement the audit recommendations.

If you or your staff have any questions or need additional information, please do not hesitate to contact me at 410 841-5845.

Sincerely,

A handwritten signature in black ink that reads "Eric C. Von Paris".

Eric C. Von Paris
Assistant Secretary Administration
Maryland Department of Agriculture

Enclosures:

Cc:

Joseph Bartenfelder, Secretary, MDA
Julie Oberg, Deputy Secretary, MDA

Maryland Department of Agriculture

Agency Response Form

Cover Crop Program

Finding 1

MDA had not established comprehensive procedures for SCDs to perform inspections of farms in the Cover Crop Program, did not adequately monitor the inspections, and did not take required action when inspections identified grantees that were noncompliant with the related grant agreement.

We recommend that MDA

- a. establish comprehensive written procedures governing SCDs performance and reporting of Cover Crop Program inspections, including instruction regarding the basis and method to be used for conducting inspections, a requirement to address all critical grant provisions when conducting inspections, and steps to take when noncompliance is suspected;
- b. ensure that its grant agreements with farmers are consistent with the inspection requirements included in its agreement with DNR for Program funding;
- c. adequately monitor inspections conducted by SCDs by conducting, on a test basis, on-site examinations of inspected farmland, identifying and investigating questionable inspections including those noted above, and ensuring that at least the minimum required amount of farmland is inspected for each grantee; and
- d. cancel grant agreements, as required, when inspections identify noncompliance with critical grant provisions.

Agency Response	
Analysis	Factually Accurate
Please provide additional comments as deemed necessary.	<p>Background:</p> <p>As indicated in the audit report “Scope, Objectives and Methodology” section, this report does not address activities that are functioning properly. Therefore, MDA respectfully provides the following additional comments about Maryland’s “Gold Standard” Cover Crop Program.</p> <p>Cover crops are the most cost-effective best management practices farmers can implement to meet water quality goals identified by EPA and the Chesapeake Bay Program. The Maryland Cover Crop Program is the most heavily invested agricultural program available to farmers in the state and is considered the gold standard across the nation. This annual program provides farmers cost share assistance to implement cover crops that absorb nutrients left over from previous cash crops that were not utilized primarily due to environmental conditions. Although the Bay Model does not take into effect</p>

Maryland Department of Agriculture

Agency Response Form

	<p>those environmental conditions, this model does credit acres planted to cover crops towards nutrient reductions to the Chesapeake Bay.</p> <p>The audit provides analysis concerning the administration of the Cover Crop Program and MDA concurs with the recommendations to improve the program. However, the audit does not disclose the challenges faced by the Cover Crop Program and the necessity to adjust the program during the annual cycle due to environmental conditions. For example, the unpredictability of the weather can significantly impact the overall results of the Cover Crop Program from cycle to cycle.</p> <p>In addition to the Cover Crop Program, the MDA, in coordination with the twenty-four (24) Soil Conservation Districts (SCDs), is responsible for providing administrative and technical assistance for many local, state, and federal programs and every conservation program is given the highest priority considering available resources. Each program provides the ability for nutrient reductions within the Chesapeake Bay Watershed. The uniqueness within the Maryland SCDs is the collaboration of many partners working collectively to assist farmers and landowners.</p> <p>The Cover Crop Program requires significant administrative assistance throughout the year. Sign-ups are processed from mid-June to mid-July, farmer certification from mid-Aug to early Nov, and spring certification from early March to early June. During peak operational periods, the Cover Crop program reassigns staff from other required duties to assist with the administration of this program. Over the last 3 years, MDA has transitioned to a new SQL database program that improves the administrative efficiency, streamlines processes and provides better customer service.</p> <p>Referrals to Fraud, Waste, and Abuse Hotline:</p> <p>None of the allegations received by the hotline were recommended by the auditor's for referral to the Attorney General's Office for further investigation. In addition, MDA's follow-up reviews of the concerns did not disclose any potential criminal activity.</p> <p>MDA Did Not Establish Inspection Procedures or Adequately Monitor SCD Inspections</p> <p>Each cycle, MDA holds several conference calls with SCDs prior to the fall and spring certification period to provide guidance on inspection procedures. To improve overall program accountability, MDA will develop program</p>
--	--

Maryland Department of Agriculture

Agency Response Form

	<p>oversite and establish comprehensive written procedures regarding, the amount of farmland inspected, and the methodology to be used by SCD inspectors.</p> <p>SCD Inspections Were Inadequate and Inconsistent</p> <p>The MOU with DNR requires inspection of 20% of acreage in each grant agreement to verify planting in the fall and a random 10% field check of acreage planted in each county in the spring. MDA's past practice was to perform the inspections based on planting tier dates. As a result, field inspections could be conducted on as many as three separate occasions during the fall certification period. MDA will make modifications to the grant agreement to improve accountability, clarify the required total acreage to be inspected, and improve monitoring and consistency within the SCDs as well as MDA.</p> <p>Due to the significant number of wide-ranging variables, the seeding rate verification process presents challenges. Some of the variables include, field planting method, weather conditions, and environmental conditions; all of which impact germination results. The Cover Crop program is a practice-based program and not a performance-based program. However, to maximize performance, seeding rates are increased by 25% for broadcast aerial and for the FY 21 Cover Crop Program, incentives are provided for incorporated seed to enhance germination. The method of using a ring toss and counting plants is time consuming and inefficient. MDA is researching other options to determine a better method for verifying seed count to improve efficiencies.</p> <p>MDA agrees there should be better documentation of fields with deficiencies. Written procedures for field inspections will provide better consistency related to the number of fields and acreages covered in a single day. In addition, any inconsistency with workhours recorded on inspector timesheets will be addressed by MDA with the SCDs to take corrective actions.</p> <p>As indicated in the audit report scope section, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the deficiencies noted at the five (5) SCDs tested cannot be used to project those results to the entire population of twenty-four (24) SCDs from which the test items were selected.</p> <p>MDA Did Not Take Required Action For Noncompliant Grantees.</p> <p>Some grant agreements/applications were amended (instead of cancelled) on a limited basis through an appeals process when the grantee documented the</p>
--	---

Maryland Department of Agriculture

Agency Response Form

	reason for non-compliance was reasonable and not due to false, misleading or fraudulent information. Agreements/applications were only amended for acres that are in full compliance with the terms of the agreement. MDA will consult with legal counsel and review the appeals and amendment process for legal sufficiency and make the necessary adjustments to future grant agreements.		
Recommendation 1a	Agree	Estimated Completion Date:	1 May 2021
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been taken. Updated instructions were provided to the SCD's and applicants prior to the end of the Fall FY21 application cycle. In addition, prior to the start of the FY22 Program, MDA will establish comprehensive written procedures for governing SCDs performance and reporting of Cover Crop Program inspections, including instruction regarding the basis and method to be used for conducting inspections, a requirement to address all critical grant provisions when conducting inspections, and steps to take when noncompliance is suspected.		
Recommendation 1b	Agree	Estimated Completion Date:	1 May 2021
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been started and prior to the start of the FY22 Program, language within grant agreements with farmers will be modified to ensure consistency with the inspection requirements included in MDA's agreement with DNR for Program funding.		
Recommendation 1c	Agree	Estimated Completion Date:	1 May 2021
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been taken. Updated oversight instructions were provided to the SCD's before the end of the Fall FY21 application cycle. In addition, prior to the start of the FY22 Program, comprehensive written procedures will be established to provide oversight and to adequately monitor inspections conducted by SCD's by conducting, on a test basis, on-site examinations of inspected farmland, identifying and investigating questionable inspections including those noted above, and ensuring that at least the minimum amount of farmland is inspected for each grantee.		
Recommendation 1d	Agree	Estimated Completion Date:	1 May 2021
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been started and prior to the start of the FY22 Program, MDA will consult with legal counsel to revise the grant agreement and add terms and conditions for an appeals and amendment process. In addition, based on the revised terms and conditions, MDA will cancel grant agreements, as required, when inspections identify non-compliance with critical grant provisions.		

Maryland Department of Agriculture

Agency Response Form

Cash Receipts

Finding 2

MDA did not segregate duties for collections, and did not ensure that certain product registrations were proper and the related fees were collected and deposited.

Recommendation 2

We recommend that MDA

- a. establish a process for supervisory review and approval of registrations issued by an employee independent of the registration and cash receipts processes (repeat),**
- b. independently reconcile the total value of registrations issued and fees collected according to its records with the related revenues deposited (repeat), and**
- c. ensure that an employee independent of the collection process performs the verification of collections to deposit.**

We advised MDA how to achieve the necessary separation of duties using existing personnel.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	None.		
Recommendation 2a	Agree	Estimated Completion Date:	Immediately
Please provide details of corrective action or explain disagreement.	MDA Concurs. Corrective action has been taken. The cash collection function within the State Chemist Unit has been reassigned to an employee (Office Secretary) who no longer has the ability to access the system and issue the related registrations. In addition, monthly a supervisor queries the system and on a test basis reviews active registrations to ensure the propriety of issued registrations. This review is documented by the supervisor preparing an internal memo for record documenting their review and the date performed. Due to the limitations of the current system to generate output reports and program system edits to adequately provide internal controls; MDA is in the process of implementing a new registration system with a target start date sometime in FY22.		

Maryland Department of Agriculture

Agency Response Form

Recommendation 2b	Agree	Estimated Completion Date:	June 30, 2021
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been taken. The State Chemist Unit is working with the Fiscal Office to establish a formal periodic financial reconciliation and full implementation will occur prior to FY21 Closeout. This reconciliation will include verifying that revenue deposited and recorded in FMIS reconciles with the total value of registrations issued through the State Chemist's registration system.		
Recommendation 2c	Agree	Estimated Completion Date:	Immediately
Please provide details of corrective action or explain disagreement.	MDA concurs. Corrective action has been taken. Effective 22 November 2019, MDA implemented remote deposit procedures. These procedures included a periodic monthly independent verification of receipts (Wells Fargo Banking System) to deposit (initial log of recordation) performed by the Fiscal Office Accountant Supervisor starting December 2019. Effective immediately, the periodic monthly verification will be performed on a weekly or daily basis depending on the level of cash receipt activity.		

Maryland Department of Agriculture

Agency Response Form

Equipment

Finding 3

MDA's physical inventory and equipment recordkeeping procedures were inadequate and were not in accordance with State policy.

We recommend that MDA comply with the *Inventory Control Manual* requirements (repeat), and if necessary seek specific assistance from DGS for establishing, monitoring, and maintaining compliance with those requirements.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	None.		
Recommendation 3	Agree	Estimated Completion Date:	30 June 2021
Please provide details of corrective action or explain disagreement.	<p>MDA Concur. After last audit, MDA undertook an extensive re-inventorying of all of the assets of the Department. During the course of this process procedures were developed to ensure assets were appropriately accounted for and that the disposal and removal of assets was performed in accordance with State Policy. Due to employee turnover not all inventory procedures were fully implemented and certain inventory items were not properly accounted for.</p> <p>MDA concurs with the recommendation and we will review all of our procedures to ensure compliance with the DGS Inventory Control Manual. We are committed to having an up-to-date accounting of the entire inventoried assets of the MDA and we will coordinate directly with DGS for assistance where it is needed to ensure our goal of complete accountability.</p>		

AUDIT TEAM

Robert A. Wells, Jr., CPA
Audit Manager

Lauren E. Franchak, CPA
Sandra C. Medeiros
Senior Auditors

Keli R. Edmonds
Samuel Hur, CPA
Oluwafemi E. Ogundolie
Staff Auditors