

Audit Report

Department of Agriculture

May 2016



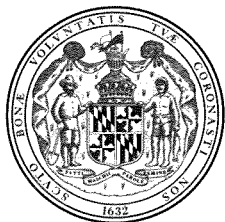
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

May 5, 2016

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Agriculture (MDA) for the period beginning July 16, 2012 and ending August 20, 2015. MDA's primary purpose is to supervise, administer, and promote agricultural activities throughout the State of Maryland.

Our audit disclosed that MDA had not established adequate controls over its fiscal functions involving cash receipts and equipment.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Department of Agriculture (MDA) supervises, administers, and promotes agricultural activities throughout the State of Maryland. Its mission is to provide leadership and support to agriculture and the citizens of Maryland by conducting regulatory, service, and educational activities that assure consumer confidence, protect the environment, and promote agriculture. MDA's responsibilities include providing planning assistance to farmers, protecting the health of domestic animals (such as livestock), controlling insect pests, regulating the use of pesticides, and implementing sound soil conservation methods. MDA also inspects and grades agricultural commodities, oversees the practice of veterinary medicine, and inspects the weighing and packaging of various products. According to the State's records, MDA's operating expenditures for fiscal year 2015 totaled approximately \$80.3 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated April 24, 2013. We determined that MDA satisfactorily addressed two of the findings. The remaining two findings are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Adequate controls were not established over cash receipts and the related registrations issued in one unit.

Analysis

The Maryland Department of Agriculture (MDA) had not established adequate controls over certain cash receipts and the related registrations issued in one MDA unit. This unit collects various fees, including commercial feed and pesticide registration fees. According to MDA's records, the unit's collections totaled approximately \$2.8 million during fiscal year 2015, including \$2.5 million collected through the MDA lockbox account and \$300,000 collected by the MDA unit.

The employee who initially received cash receipts in this unit also recorded product registration application data in the automated records; the registrations were subsequently issued without independent supervisory review and approval. Furthermore, MDA did not perform an independent reconciliation of the value of registrations issued with the corresponding revenue deposited to ensure that the proper amounts were collected and deposited for all registrations issued by the unit. The Comptroller of Maryland's *Accounting Procedures Manual* requires that the total value of registrations issued should be reconciled with the total cash received for those registrations.

The lack of an independent reconciliation of the total value of registrations issued and fees collected has been commented upon in our three preceding audit reports dating back to 2007. The lack of a process for supervisory review and approval of registrations issued was commented upon in our preceding report.

Recommendation 1

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), and**
- b. independently reconcile the total value of registrations issued and fees collected according to its records with the related revenues deposited (repeat).**

Equipment

Finding 2

Control deficiencies exist over equipment records and physical inventories.

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 November 17, 2015 totaled approximately \$8.3 million.

- The equipment control account was not properly maintained since it did not provide a continuing summary of transactions and a total dollar value control over amounts recorded in the related detail records.
- Physical inventories of certain sensitive equipment were not performed annually as required. We noted 1,452 sensitive items with a recorded cost of

approximately \$1.4 million which, as of November 2015, had not been inventoried within one year. Of this total, \$1.2 million had not been inventoried within the last three years.

- Equipment items were not always properly recorded in the detail equipment records. Our test of 12 equipment purchases totaling approximately \$354,000 made prior to April 2015, disclosed 3 purchases totaling \$179,000 which, as of November 2015, had not been recorded in the detail records. We also noted 1,035 items totaling \$540,763 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.

The DGS *Inventory Control Manual* requires a control account to be maintained and periodically reconciled to the related detail records, and sensitive equipment to be inventoried annually. The *Manual* also requires detail records to 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.

Recommendation 2

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Agriculture (MDA) for the period beginning July 16, 2012 and ending August 20, 2015. 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 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.

Our audit included a review of certain support services (such as purchasing, data processing, maintenance of accounting records, and related fiscal functions) provided by MDA to the Maryland Agricultural Land Preservation Foundation which administers the Maryland Agricultural Land Preservation Fund. 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.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MDA's operations, and tests of transactions. 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 various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our 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.

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.

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.



Maryland Department of Agriculture

Office of the Secretary

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
Joseph Bartenfelder, Secretary
James P. Eichhorst, Deputy Secretary

APPENDIX

Agriculture | Maryland's Leading Industry

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April 28, 2016

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

Dear Mr. Barnickel:

In response to your End of Audit report, please find our comments attached. Please let us know if you have any questions or further requirements.

Sincerely,

James Wallace
Assistant Secretary
Administration

Cc: James Eichhorst, Deputy Secretary
Charles Cawley, Fiscal Administrator
Lisa DeCarlo, Office of Legislative Services

Cash Receipts

MDA did not establish controls over cash receipts collected at the State Chemist's Office.

The Department concurs. The new acting State Chemist has implemented steps to be in compliance with the audit recommendations. MDA will reconcile registrations issues with fees collected on a monthly basis.

Equipment

Control deficiencies continue to exist over property records and physical inventories.

MDA has worked diligently to set up a new database, perform physical inventory, and have controls in place to have a good valuation number for the control account, which is now in place. Work is continuing as MDA has over 26 locations throughout the state and we need to have additional training for Accountable Officers to assure the compliance with the DGS Property Manual. DGS has completed an audit of MDA's inventory systems (June, 2015) and have found that the Department has generally complied with the standards.

AUDIT TEAM

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