

Financial-Related Audit

Department of Agriculture
Three Fiscal Years Ending June 30, 2000



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Eugene Hugoson, Commissioner
Department of Agriculture

We have audited selected financial activities of the Department of Agriculture for the period July 1, 1997, through June 30, 2000. Our audit scope included: financial management, license and fee revenues, and payroll expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of all of the Department of Agriculture's financial activities.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Agriculture complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the department is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Agriculture. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 26, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 2001

Report Signed On: July 19, 2001

Department of Agriculture

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Financial Management	5
Chapter 3. License and Fee Revenue	7
Chapter 4. Payroll Expenditures	11
Status of Prior Audit Issues	15
Department of Agriculture's Response	17

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Steve Johnson, CPA, CISA	Auditor-In-Charge
Susan Mady	Auditor
Kathy Fisher	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Department of Agriculture at an exit conference held on July 10, 2001:

Sharon Clark	Deputy Commissioner
Becky Leschner	Budget Director
Al Louismet	Assistant Director, Financial Operations

Report Summary

The Department of Agriculture's internal controls provided reasonable assurance that it operated within its available resources and properly authorized and recorded financial activities in the Minnesota Accounting and Procurement System (MAPS). The department effectively structured its accounts on the state's accounting system to allow it to manage its diverse funding from direct and open appropriations and dedicated and nondedicated receipts. However, we noted the following internal control weaknesses and compliance issues during our review.

Key Findings:

- The department's Grain and Produce Inspection Division should improve controls over amounts billed and the collection of receipts. Supervisors did not review and authorize all supplemental charges, and certain other charges were not billed. Increased control was recommended for monies remotely collected by field inspectors. Also, improved coordination is needed between the division's invoicing function and maintenance of account receivable balances by the central office. (Finding 1, Page 9)
- The department needs to improve its process for monitoring and submitting old, uncollected accounts receivable to the Minnesota Collection Enterprise in compliance with Minn. Stat. Section 16D.04. (Finding 2, Page 10)
- The department needs to improve input controls over payroll processing by requiring an independent review of the SEMA4 payroll register. Internal control concerns were specifically noted in the Grain and Produce Inspection Division. We noted examples where timesheets lacked supervisory approvals, hours worked and leave taken were not correctly input into the payroll system, and labor charges were incorrectly distributed between metro and non-metro accounts. (Finding 3, Page 12)

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Department of Agriculture included overall financial management, dairy, grain, and pesticide receipts, and payroll costs. This has not been a comprehensive audit of all of the Department of Agriculture's financial activities. The department's response is included in the report.

Department of Agriculture

This page intentionally left blank.

Department of Agriculture

Chapter 1. Introduction

The Department of Agriculture is responsible for administering programs that promote agriculture, family farming, and conservation practices. The agency encourages the development of agricultural markets, both nationally and internationally. The department is also responsible for enforcing laws related to food safety and production. The Department of Agriculture is under the leadership of Commissioner Gene Hugoson who was appointed on July 1, 1995.

The department is organized into three primary functions with multiple divisions:

Function:

Protection Services

Agricultural Marketing and Development

Administrative and Financial Assistance

Division:

Agronomy and Plant Protection
Dairy and Food Inspection
Grain and Produce Inspection
Laboratory Services

Agriculture Marketing Services
Agriculture Development
Agriculture Resource Management

Commissioner's Office
Administrative Services
Agricultural Finance

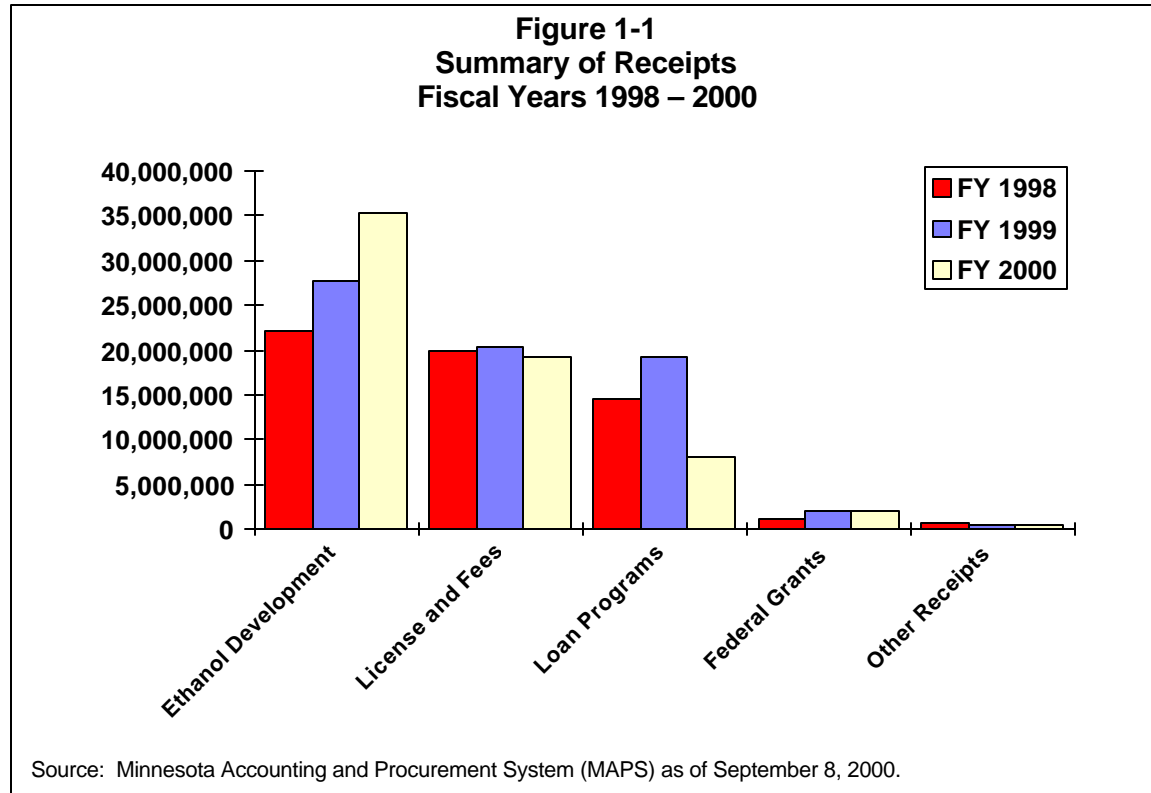
To provide fiscal oversight and accountability of the functional divisions, the management of the Department of Agriculture assigned program accountants in the various divisions to aid program administrators in decisions relating to financial management.

Financial activities of the department were primarily financed by direct appropriations from the General Fund and various Special Revenue Fund accounts. The department received direct appropriations of \$29.5 million, \$25.4 million, and \$23.9 million for fiscal years 1998, 1999, and 2000, respectively. It also received additional supplemental appropriations. During fiscal year 2000 the Agriculture Fund was created to account for certain fee-based client services rather than funding these programs with direct appropriations. Also, for fiscal years 1998, 1999, and 2000, the department received open appropriations of \$22 million, \$27.6 million, and \$35.3 million, respectively, from the Ethanol Development Fund. The amounts collected in the Ethanol Development Fund were used to pay producers and to fund ethanol programs.

The Department of Agriculture collected various revenues earned from license, registration, and service fees, as discussed in Chapter 3. It also collected rural finance authority loan repayments and funding for some federal grants. We annually examine the rural finance authority financial statements reported as a component unit in the state's general purpose financial statements.

Department of Agriculture

Figure 1-1 shows the volume of receipts from license and fees, loan repayments, federal grants, and other sources.



Payroll and fringe benefits were one of the largest operating costs for the department. A substantial amount of claims and grants were also disbursed, primarily for funding ethanol development programs. Payroll expenditures are discussed in Chapter 4. Table 1-1 provides a summary of departmental expenditures for fiscal years 1998, 1999, and 2000.

**Table 1-1
Summary of Expenditures
Fiscal Years 1998-2000**

Expenditures:	1998	1999	2000
Payroll and Fringe Benefits	\$21,947,005	\$23,033,955	\$24,581,399
Rent	1,998,904	2,142,757	2,200,122
Supplies and Equipment	2,012,184	2,570,232	2,809,268
Travel	1,200,846	1,278,057	1,283,350
Other Operating Expenditures ⁽¹⁾	7,606,814	15,364,514	7,916,939
Grants and Claims	<u>26,469,528</u>	<u>30,142,001</u>	<u>39,049,399</u>
Total Expenditures	<u>\$61,235,281</u>	<u>\$74,531,516</u>	<u>\$77,840,477</u>

(1) The increase in fiscal year 1999 is due to an additional \$6.9 million that was expended for federal crop insurance assistance pursuant to 1998 Laws of Minnesota, Chapter 395, Section 5.

Note: The department also issued loans totaling \$9 million, \$13 million, and \$3 million for fiscal years 1998, 1999, and 2000, respectively.

Source: Minnesota Accounting and Procurement System (MAPS) as of September 8, 2000.

Chapter 2. Financial Management

Chapter Conclusions

The Department of Agriculture’s internal controls provided reasonable assurance that it operated within its available resources and properly authorized and recorded financial activities in the Minnesota Accounting and Procurement System (MAPS). The department effectively structured its accounts on the state’s accounting system to ensure it used General Fund appropriations and dedicated receipts for intended purposes, and directed nondedicated receipts to the General Fund. For the items tested, the department complied with significant finance-related legal provisions governing appropriation uses.

The Department of Agriculture receives the majority of its funding for operations from General Fund appropriations. In fiscal year 2000, General Fund appropriations financed approximately 68 percent of the department’s administrative expenditures. The department also collected various dedicated receipts in its Special Revenue Fund and Agricultural Fund to finance licensing, inspection, regulatory, and registration activities. Fees were established to recover the cost of providing these services. In addition, certain nondedicated receipts were generated through services and licensing fees charged to various agricultural businesses. These receipts were deposited as nondedicated revenues and were not available for departmental operations.

The department allocates state appropriations to the divisions based on various factors, including prior year allocation and proposed spending plan. Table 2-1 shows the base appropriation levels and supplemental appropriations received for fiscal year 2000.

**Table 2-1
General Fund Appropriations
Fiscal Year 2000**

Function	1999 Laws Ch. 231 Sec. 11	2000 Laws Ch. 488 Sec. 5	2000 Laws Ch. 490 Sec. 5	2000 Laws Ch. 492 Sec. 10	Total
Protection Services	\$11,273,000	\$120,000			\$11,393,000
Agricultural Marketing and Development	6,521,000	300,000			6,821,000
Administration and Financial Assistance	<u>5,778,000</u>	<u>450,000</u>	<u>\$50,000</u>	<u>\$1,200,000</u>	<u>7,478,000</u>
Total Direct Appropriations	<u>\$23,572,000</u>	<u>\$870,000</u>	<u>\$50,000</u>	<u>\$1,200,000</u>	<u>\$25,692,000</u>

Source: Laws of Minnesota for 1999 and 2000 (as referenced above).

The Minnesota Accounting and Procurement System (MAPS) is the primary accounting system for all divisions. Although the department’s general support service office is ultimately

Department of Agriculture

responsible for department-wide financial activity, the individual divisions function autonomously and are expected to be fiscally responsible and operate within their respective allocations. The general support service office holds quarterly meetings with the divisions to discuss budget status or other operational concerns. Each division has established its own budget control practices to monitor spending. Typically, divisions produce accounting system reports identifying budget versus actual expenditures. These budget reports are distributed to division supervisors and management to assist in making operating decisions. Divisions have discretion to transfer funds between categories with central office approval.

Each individual division performs its own client billing function. All money generated from client billings is centrally collected. Cash receipts are delivered to the cashier for entry into the department's license information system and, ultimately, into the state's accounting system, MAPS. Revenues are posted as dedicated or nondedicated receipts into unique appropriation accounts, depending on the nature of the receipts. Invoicing tracking and account receivable collections are also centrally managed by the general service support office.

Audit Objective and Methodology

Our review of the Department of Agriculture's overall financial management and budgetary controls focused on the following objective:

- Did the department's internal controls provide reasonable assurance that it operated within available financial resources and structured its accounting system to ensure it used appropriations and dedicated receipts for intended purposes in compliance with applicable legal provisions?

To answer these questions, we interviewed the department's accounting and budget personnel and division staff to gain an understanding of the overall financial management and budget process. We analyzed the accounting system transactions and overall structure of MAPS appropriation accounts for direct and open appropriations, dedicated revenues, and nondedicated receipt funding.

Conclusions

The Department of Agriculture's internal controls provided reasonable assurance that it operated within available resources and properly authorized and recorded financial activities in MAPS. The department effectively structured its accounts on the state's accounting system to ensure it used direct appropriations and dedicated receipts for intended purposes and directed nondedicated receipts to the General Fund. For the items tested, the department complied with significant finance-related legal provisions governing appropriation uses.

Chapter 3. License and Fee Revenue

Chapter Conclusions

The Department of Agriculture’s internal controls provided reasonable assurance that the revenues from licenses and fees were adequately safeguarded and accurately recorded on the statewide accounting system (MAPS). However, concerns were noted with the controls over the billing process used by the Grain and Produce Inspection Division. Supervisors did not review and authorize all supplemental charges, and certain other charges were not billed. We also noted weaknesses over issuance of commercial service tickets where receipts are collected by field inspectors. For the items tested, the department complied with material finance-related legal provisions regarding billing and deposit of inspection fees and license revenues. However, we noted that the department had not referred old, uncollected accounts receivable balances totaling \$65,095 to the Minnesota Collection Enterprise, as required by Minn. Stat. Section 16D.04, subd. 2(b).

The Department of Agriculture is responsible for the inspection and licensing of several activities related to agriculture. The functions of the agency are decentralized among various divisions. The divisions are responsible for issuing licenses and conducting inspections, while the central office monitors outstanding accounts receivable. Moneys are centrally collected and deposited. We reviewed the operations of three of the agency's revenue generating activities. Table 3-1 shows revenues generated for the license and fee accounts we reviewed.

Table 3-1
Selected License and Fee Revenues
Fiscal Years 1998 to 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Pesticide Regulation	\$6,307,663	\$6,647,700	\$5,666,602
Grain and Produce Inspection	\$3,935,341	\$3,973,590	\$4,373,685
Dairy Services	\$1,442,003	\$1,650,192	\$1,444,845

Note: The department attributes the reduction of pesticide regulation revenues from fiscal year 1999 to 2000 due to the effects of seasonal weather patterns and the growth in use of genetically modified organisms to fight insects and disease.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998, 1999, and 2000 as of September 8, 2000.

Pesticide Registrations

Minn. Stat. Section 18B.05 established the pesticide regulatory account to govern the distribution, use, storage, handling, and disposal of pesticides. The pesticide regulatory account collects revenues from a variety of pesticide-related activities. These activities include pesticide

Department of Agriculture

registrations, licensing of pesticide applicators, issuing pesticide permits, and assessing penalties for violations.

Grain and Produce Inspection

The Grain and Produce Inspection Division is responsible for providing impartial grain inspection services to grain producers, shippers, terminal elevators, and processors. The division provides services that allow Minnesota grain producers, buyers, and sellers to market their grain in an orderly manner, using official grain grades and weights. The division employs inspectors located throughout the state. The division has been designated by the United States Department of Agriculture to perform inspection and weighing activities at the Port of Duluth. User fees fund the division's activities and are set at an amount intended to pay the expenses of carrying out and enforcing compliance with statutes. If user fees cannot or do not cover the cost of the inspections, the commissioner (of Agriculture) has the authority to use fine and penalty monies deposited into the Agricultural Fund, but must notify the chairs of various legislative committees.

Dairy Services

The dairy section of the Dairy and Food Inspection Division is responsible for inspecting Grade A and B dairy farms located in the state. Samples of milk are obtained and analyzed for composition, bacterial content, and proper labeling. The commissioner has discretion to fund the division at a level necessary to recover the cost of the dairy inspection services. The commissioner is authorized to use General Fund appropriations and dedicated revenue sources to cover the cost of the dairy inspections.

Audit Objectives and Methodology

Our review of pesticide, grain, and dairy license and fee revenue focused on the following objectives:

- Did the department's internal controls provide reasonable assurance that license and fee revenues were adequately safeguarded, assessed at accurate amounts, and properly recorded in the statewide accounting system?
- Did the department comply with material finance-related legal provisions governing collection and deposit of license and fee revenues and uncollected accounts receivable?

To address these objectives, we interviewed department staff to gain an understanding of the internal controls over selected license and fee revenues. We tested license and fee receipt transactions to determine if they were properly authorized, processed, and recorded. We also reviewed license and fee transactions to determine if the department complied with material finance-related legal provisions, including prompt deposit of receipts and referral of old, uncollected accounts receivable to the Minnesota Collection Enterprise.

Department of Agriculture

Conclusions

The Department of Agriculture's internal controls provided reasonable assurance that the revenues from licenses and fees were adequately safeguarded and accurately recorded on the statewide accounting system (MAPS). However, concerns were noted with the controls over the billing process used by the Grain and Produce Inspection Division. Supervisors did not review and authorize all supplemental charges, and certain other charges were not billed. We also noted weaknesses over issuance of commercial service tickets where receipts were collected by field inspectors. For the items tested, the department complied with material finance-related legal provisions regarding billing and deposit of inspection fees and license revenues. However, we noted that the department had not referred old, uncollected accounts receivable balances totaling \$65,095 to the Minnesota Collection Enterprise as required by Minn. Stat. Section 16D.04, subd. 2(b).

1. The Grain and Produce Inspection Division did not have adequate controls to ensure that all supplemental charges were billed and that all field collections were deposited.

Certain aspects of the Grain and Produce Inspection Division's billing and collection practices require improvement. The division currently invoices clients for inspection and weighing services performed on grain and produce. We noted the following internal control weaknesses involving the division's billing and field collection procedures:

- Certain supplemental charges were not properly billed. Billing errors resulted from the lack of verification of supplemental billing data. Supplemental billings are necessary when the department incurs costs for employee time spent waiting for the grain shipment to arrive or for miles driven by the employee to arrive at an inspection site. These supplemental charges are entered into the billing system, but the entry work is not verified. Our tests of 25 items revealed that four transactions had numerous data entry errors that resulted in inaccurate billings of supplemental charges. Three invoices did not include all mileage charges, and three errors resulted from missing or inaccurate overtime or standby hours. The division should verify that supplemental data is accurately input prior to sending out invoices to customers.
- Many supplemental charges were never reviewed and authorized by a division supervisor, as required by department policy. The lack of supervisory approval for supplemental charges increases the risk that the billing information is inaccurate or incomplete. Inaccurate or incomplete slips result in over-billing or under-billing to customers.
- Controls over issuing grain inspection and commercial service (GoldenRod) tickets to customers were inadequate. The division had not prenumbered its commercial service tickets. Sequential control is critical since the tickets were used by field inspectors to support collection of moneys for certain services they provided in the field. The division currently relies on an honor system to ensure that the cash proceeds are forwarded to the division office for deposit into the state treasury. The division needs to prenumber tickets used by field inspectors to ensure that all cash proceeds collected from tickets issued are deposited in the state treasury.

Department of Agriculture

- There appears to be a lack of communication and coordination between the Grain and Produce Inspection Division and central office for billing and accounts receivable management. The division sometimes invoices customers for unpaid charges previously billed and adjusts or voids invoices without timely notification to central office. Without effective communication and coordination, customers could be billed by the central office for charges that were corrected or adjusted by the division.

These concerns weaken controls designed to ensure that all authorized services are accurately billed, collected, and deposited into the grain and produce inspection account. Ineffective billing and receivable practices could result in lost or unrecorded revenue for the department.

Recommendation

- *The Department of Agriculture's Grain and Produce Inspection Division should improve internal controls over invoicing by:*
 - *ensuring all supplemental charges are assessed for mileage, overtime, and standby hours;*
 - *obtaining supervisory approval on all supplemental charges;*
 - *using prenumbered forms issued to customers and sequentially tracking commercial services tickets supporting field collections; and*
 - *communicating billing adjustments to central office when void charges or changes to the original billing occurs.*

2. The department has not referred old, uncollected accounts receivable balances to the Minnesota Collection Enterprise.

The Department of Agriculture has \$65,095 of accounts receivable that have been outstanding more than 121 days. Over \$62,000 of this outstanding amount is over one year old. The department maintains a spreadsheet to monitor and track account receivable balances. However, it lacks a structured process to resolve the debt or ensure that repayment plans are made with the debtor. Ultimately, the unpaid balances should be referred to the Minnesota Collection Enterprise (MCE) for recovery.

Minn. Stat. Section 16D.04, subd. 2(b) requires "When a debt owed to a state agency becomes 121 days past due, the state agency must refer the debt to the commissioner (of Revenue) for collection." The statute permits agencies to collect on the debt for an extended period on their own if the debtor is adhering to an acceptable repayment plan. The department has not entered into repayment plans with these debtors and unpaid accounts receivable have not been submitted to MCE. By not forwarding accounts to the MCE, the department is not taking advantage of an effective and efficient collection recovery process.

Recommendation

- *The Department of Agriculture should obtain repayment plans from debtors with delinquent account receivable balances. Uncollected accounts without repayment plans should be forwarded to MCE for collection pursuant to Minn. Stat. Section 16D.04.*

Chapter 4. Payroll Expenditures

Chapter Conclusions

The Department of Agriculture’s internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management’s authorizations, and that payroll expenditures were properly recorded in the accounting records. However, the department needs to improve payroll input controls by providing for an independent review of the SEMA4 Payroll Register. In addition, we noted that payroll input and labor distribution errors were made by the department’s Grain and Produce Inspection Division. The division did not sufficiently review biweekly SEMA4 reports to independently verify input and improve payroll accounting accuracy. Division supervisors did not always authorize and review the hours worked and leave reported on employee timesheets. For the items tested, the department compensated employees in compliance with material finance-related legal provisions, including employee collective bargaining agreements and personnel plans.

The Minnesota Department of Agriculture employs approximately 500 employees located primarily at 90 West Plato Boulevard in St. Paul and the Grain Exchange Building in downtown Minneapolis. The human resources function is centralized for the entire department. However, the payroll functions are performed separately. The General Support Services Division performs payroll services for the entire department except for the Grain and Produce Inspection Division, which processes its own payroll.

Table 4-1 shows department payroll expenditures by type for fiscal years 1998, 1999, and 2000.

Table 4-1
Payroll Expenditures
Fiscal Years 1998 to 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Full-Time	\$19,263,105	\$19,987,264	\$21,459,447
Part-Time	1,617,952	1,880,422	1,935,475
Overtime Pay	454,314	533,573	553,869
Premium Pay	56,623	57,945	51,759
Other Benefits	<u>555,011</u>	<u>574,451</u>	<u>580,849</u>
Total Payroll	<u>\$21,947,005</u>	<u>\$23,033,955</u>	<u>\$24,581,399</u>

Source: Minnesota Accounting and Procurement System (MAPS) as of September 8, 2000.

Department of Agriculture

Objectives and Methodology

During our review of payroll expenditures, we focused on the following objectives:

- Did the department's internal controls provide reasonable assurance that employees were compensated in compliance with applicable bargaining unit agreements, personnel plans, and management's authorization, and that payroll transactions were accurately reported in the accounting records?
- Did the department's payroll transactions comply with material finance-related legal provisions, including applicable bargaining unit contracts and personnel plan provisions?

To meet these objectives, we interviewed department employees to gain an understanding of the internal controls over personnel and payroll. We analyzed employee salaries and tested SEMA4 payroll transactions to determine if the department properly authorized, processed, and recorded the transactions in compliance with applicable legal provisions governing payroll.

Conclusions

The Department of Agriculture's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were properly recorded in the accounting records. However, the department needs to improve payroll input controls by providing for an independent review of the SEMA4 payroll register. In addition, we noted payroll entry errors and labor distribution errors were made by the department's Grain and Produce Inspection Division. The division did not sufficiently review biweekly SEMA4 reports to independently verify input and improve payroll accounting accuracy. Division supervisors did not always authorize and review hours worked and leave reported on employee timesheets. For the items tested, the department compensated employees in compliance with material finance-related legal provisions, including employee collective bargaining agreements and personnel plans.

3. PRIOR FINDING PARTIALLY RESOLVED: The department's payroll controls, especially in the Grain and Produce Inspection Division, require improvement.

A key biweekly payroll processing report was not reviewed by department staff independent of the payroll input function. SEMA4 Operating Policy and Procedure PAY00028 requires agencies to perform an independent review of the payroll register and payroll posting audit trail. Our last audit found that these key SEMA4 biweekly payroll reports were not being produced and distributed for review. The department now prepares the biweekly payroll register, however, the clerk who input the payroll data also verified the hours, pay rates, and special transactions on the report. Ideally, an individual independent of the input function should perform this review. The payroll posting audit trail is appropriately distributed to divisional staff for review of labor distribution to their accounts.

Department of Agriculture

Internal control concerns and data entry errors were also noted at the department's Grain and Produce Division. The Grain and Produce Division did not independently review the SEMA4 payroll register or the payroll posting audit trail reports. A review of the payroll register and payroll posting audit trail report is intended to ensure that payroll entry errors and labor distribution errors do not occur, or are detected and corrected.

- The payroll register provides ability for the department to verify the accuracy of the input of employee timesheet hours, pay rates, and special transactions into SEMA4. During audit tests, we noted a timesheet entry error resulting in an incorrect posting of vacation leave as sick leave. Internal department testing also encountered problems with incorrect entry of hours worked and leave taken. These errors were not detected since independent verification of input was not performed using the SEMA4 payroll register.
- The payroll posting audit trail report ensures the accuracy of labor distribution (charging the cost of the employee's employment to the correct funding source within MAPS). During fiscal year 2000, approximately \$16,300 of labor charges was incorrectly distributed between the metro and nonmetro accounts. The amounts were subsequently corrected, and internal department testing found that the accuracy was improving.

In addition, we noted other control weaknesses at the Grain and Produce Inspection Division involving authorization of timesheet hours worked and leave taken. Many timesheets on file in the division were not signed either by the employee or the employee's supervisor. Without supervisory signatures, it is unlikely that the hours worked and leave taken were ever scrutinized. An increased risk exists that employees may not have reported leave when absent from work.

Recommendations

- *The Department of Agriculture should improve payroll controls by performing an independent review of the SEMA4 payroll register for proper input of timesheet hours, pay rates, and special transactions.*
- *The department's Grain and Produce Inspection Division should improve internal controls over payroll by:*
 - *requiring that all timesheets be reviewed and signed by appropriate supervisory personnel;*
 - *providing for an independent review of the SEMA4 payroll register to ensure the hours, pay rates, and special transactions are correct; and*
 - *reviewing the SEMA4 payroll posting audit trail to ensure that payroll expenditures are posted to the correct MAPS accounts.*

This page intentionally left blank.

**Status of Prior Audit Issues
As of March 27, 2001**

Most Recent Audit

August 1998, Legislative Audit Report 98-47 covered the two fiscal years ending June 30, 1997. The audit focused on the internal control structure over license and fee revenue, loan programs, payroll, administrative expenditures, claims, and grant expenditures.

The report identified six audit findings. The first two findings concerned controls over the issuing and recording of invoices and prompt deposit of receipts. We also found that the dairy services account operated in a deficit in fiscal year 1997. During our current audit, we found that the department had nearly implemented its new billing system. However, as discussed in Finding 1 of this report, the Grain and Produce Inspection Division still needs to improve its invoicing controls. The current audit determined the department promptly deposited receipts. We also found that the dairy service account continued to operate in a deficit for fiscal year 2000. However, the department has worked with the Legislature and alerted them to causes of the short fall.

The fourth finding in the prior audit cited the lack of formal statutory review committee authorization of county allocations for Best Management Practice loans. We determined that this issue was subsequently resolved by the department.

The previous audit of the department's payroll identified the need to improve controls over access to payroll systems, as well as a need to review key SEMA4 payroll processing reports. The current audit found that the department did restrict SEMA4 system access. However, the department needs to provide for an independent review of the payroll register, and payroll controls required improvement in the department's Grain and Produce Inspection Division.

The final area of concern involved the grant expenditures. The department had not timely reimbursed state accounts for indirect costs paid on behalf of federal programs. The department implemented procedures to directly charge federal accounts and eliminated the need to reimburse the state accounts after the fact.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

This page intentionally left blank.



Minnesota Department of Agriculture

July 17, 2001

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the positive comments on our agency in your audit report. Our management team has reviewed the report. The following actions will be taken to resolve the three findings.

Finding 1. The Grain and Produce Inspection Division did not have adequate controls to ensure that all supplemental charges were billed and that all field collections were deposited.

An interdivisional team of both Finance & Budget and Grain & Produce Inspection staff has been created. This team will be responsible for reviewing and modifying internal control procedures for this area. This includes improving controls to ensure that all billings are correct and that all receipts are deposited correctly and promptly.

Finding 2. The department has not referred old, uncollected accounts receivable balances to the Minnesota Collection Enterprise.

This finding has been resolved. Finance & Budget staff have met with the Minnesota Collection Enterprise (MCE) staff and updated our procedures to insure accounts are referred to MCE on a regular basis. Our invoicing database has been modified and aging reports are being monitored to insure accounts are referred to MCE on a timely basis.

Finding 3. The department's payroll controls, especially in the Grain and Produce Inspection Division, require improvement.

This finding has two components. The component for central office has been resolved. Additional staff has been assigned to perform the review of the Payroll Register reports. Program Accountants for each division will continue to monitor the payroll posting audit trails.

Component two refers to the Grain & Produce Inspection Division. As in finding #1, we have assembled an interdivisional team, with members from our Finance & Budget Division and the Grain & Produce Inspection Division. The team will evaluate current procedures, make recommendations to improve internal control, improve the payroll procedures, and monitor the progress of the Grain & Produce Inspection Division.

If you have any questions, or require additional information, please contact Becky Leschner, Budget Director at 651-215-5770.

In closing, I would like to thank you and your staff for your review and recommendations. As always, your staff was professional and courteous during their stay with us.

Sincerely,

/s/ Gene Hugoson

Gene Hugoson
Commissioner

GH:FBD:rl