OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Agriculture

Fiscal Years 2001 through 2003

JUNE 10, 2004 **04-24**

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.

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

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Eugene Hugoson, Commissioner
Minnesota Department of Agriculture

We have audited selected areas of the Minnesota Department of Agriculture (Agriculture) for the period July 1, 2000, through June 30, 2003. Our audit scope was limited to license and fee revenues, ethanol grants, and Rural Finance Authority loans. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected Agriculture for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of Agriculture's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that Agriculture complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of Agriculture's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: March 22, 2004

Report Signed On: June 7, 2004

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Ellen Sibley, CPA, CIA	Auditor
Marisa Isenberg	Auditor
Titima To	Intern

Exit Conference

We discussed the results of the audit with the following staff of the Department of Agriculture at an exit conference on May 21, 2004:

Eugene Hugoson	Commissioner
Sharon Clark	Deputy Commissioner
Jim Boerboom	Assistant Commissioner
Becky Leschner	Finance and Budget Director
Al Louismet	Accounting Operations Director

Department of Agriculture

Report Summary

Key Findings and Conclusions:

- The department did not incorporate critical controls to ensure all receipts were deposited and accurately accounted for when implementing a new electronic licensing system. (Finding 1, page 6)

- The Grain and Produce Division did not collect sufficient fees since 1998 to cover over $969,000 in costs as required by statute. In addition, the division did not take timely corrective action to ensure inspection and weighing fees were accurately billed, and cannot determine outstanding accounts receivable. Also, the department is at risk of losing the U.S. Department of Agriculture's authorization to provide inspection and weighing services in Minnesota, starting in April 2005. (Findings 2 to 4, pages 7 - 10)

- The department properly accounted for ethanol grants and Rural Finance Authority loans.

The report contained four findings relating to internal control and legal compliance. Two findings repeat portions of findings contained in our last audit report on the department.

Audit Scope:

Audit Period: July 1, 2000 to June 30, 2003

Programs Audited:
- Licensing and Inspection Receipts
- Ethanol Grants
- Rural Finance Authority Loans

Agency Background:

The Department of Agriculture administers programs that promote agricultural markets and programs, family farming, and conservation practices. The department enforces laws related to food safety and production. In fiscal year 2003, the department collected approximately $27 million and spent $61 million.

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Chapter 1. Introduction

The Department of Agriculture receives the majority of its funding for operations from General Fund appropriations. The department, under authority from Minn. Stat. Chapter 17, collects various dedicated receipts. The department deposits receipts into the Special Revenue Fund to finance licensing, inspection, regulatory, and registration activities. The department also receives some funding from federal grants. The department collected between $26 million and $29 million each year for fiscal years 2001, 2002, and 2003.

Minn. Stat. Chapter 41B establishes the Rural Finance Authority (RFA) as a legally separate entity. The commissioner of Agriculture acts as the chair for several state agencies that govern RFA. The department manages RFA loan programs.

The department recorded expenditures of approximately $100 million, $79 million, and $61 million for fiscal years 2001, 2002, and 2003, respectively. The higher expenditures in fiscal year 2001 were due to an additional $17 million in disaster relief grants administered by the department. Payroll and fringe benefits were one of the department's largest operating costs. A substantial amount of claims and grants were also disbursed, primarily for funding ethanol development programs.

The department's central office is ultimately responsible for department-wide financial management; however, the individual divisions function autonomously and are expected to be fiscally responsible and operate within their respective budget allocations. To provide fiscal oversight and accountability, management assigned program accountants in the various divisions to aid program administrators in decisions relating to financial management. Each division has established its own budget control practices to monitor spending. The central office holds quarterly meetings with the divisions to discuss budget status or other operational concerns.

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Chapter 2. License and Fee Revenue

Chapter Conclusions

The Department of Agriculture's internal controls did not include certain critical controls to ensure that the department collected and recorded the correct amount of license and fee revenues, or that the receipts were adequately safeguarded. In addition, the computerized invoice system for grain and produce inspection fees contained system design flaws resulting in inaccurate billings and collections.

The department did not comply with legal provisions to establish grain fees sufficient to recover costs for grain operations and did not refer grain accounts receivable to the Minnesota Collection Enterprise, as required by statute.

The Department of Agriculture is responsible for the inspection and licensing of several activities related to agriculture. The department collected between $26 million and $29 million for fiscal years 2001, 2002, and 2003.

The Legislature appropriated $2.5 million to the department for an electronic licensing system. The department developed and implemented the licensing information system (LIS) in the fall of 2000. The department uses LIS to record receipts for licenses and certificates issued. The department also uses LIS to record summarized receipt activity into the state's accounting system (MAPS).

Each division performs its own client billing function. All money generated from client billings is collected centrally. The mailroom delivers the receipts to the cashier for entry into LIS and, ultimately, into the state's accounting system. Revenues are recorded as dedicated or non-dedicated receipts in unique appropriation accounts, depending on the nature of the receipts. The central office is responsible for monitoring accounts receivable and reporting uncollectible accounts to the Minnesota Collection Enterprise (MCE) for recovery.

Audit Objectives

Our review of license and fee receipts focused on the following questions:

- Did the department's controls provide reasonable assurance that inspection and license fees were calculated correctly, safeguarded, accurately recorded in the accounting system, and administered in compliance with laws and regulations?

Department of Agriculture

- Did the department's Grain and Produce Division recover costs, including agency indirect costs, in accordance with legal provisions?

Findings 1 to 4 discuss the weaknesses we identified in the department's controls over licensing and fee revenue.

1. The department did not have adequate internal controls over its receipt process.

The department did not incorporate certain critical receipt processing controls when it implemented a new licensing information system (LIS) in July 2000. We identified the following weaknesses in the department's receipt processing procedures.

- The department did not separate incompatible duties and incompatible access to computer systems. The central cashier obtains receipts from the mailroom, enters receipts into LIS, prepares deposits, and reconciles deposits to LIS. An accounting technician, who processes grain inspection fees, has a similar concentration of incompatible duties.

  One supervisory position responsible for approving reconciliations also performs incompatible backup duties such as opening the mail, entering receipts, and preparing deposits. The effectiveness of receipt reconciliations becomes compromised when independent reconciliations of mailroom receipt logs, bank deposit tickets, and account postings to LIS and MAPS are not separated from individuals processing or approving the transactions.

  Assigning one individual a concentration of incompatible duties, such as billings, collections, posting receipts to the accounting records, and verifying accounting data presents the risk that errors or irregularities may not be prevented or detected in a timely manner. Not limiting system access to these incompatible functions also increases the risk over receipt transactions.

- The department did not perform timely reconciliations from July 2000 until May 2003 of the receipts entered into the licensing system with the receipts entered into the state's accounting system (MAPS).

Recommendations

- *Agriculture should establish controls over receipt processing by:*

  -- *separating incompatible duties and incompatible security clearances to its business systems, and periodically monitoring the appropriateness of security clearances; and*

  -- *ensuring that staff who are independent of the physical custody of receipts and who are not responsible for entering receipts into the accounting systems (LIS and MAPS), prepare reconciliations of receipt and deposit documentation to accounting information in the licensing* *system and the state's accounting system that are timely, authorized by supervisory personnel, and adequately documented.*

2. The department did not establish fees sufficient to recover over $969,000 of indirect costs incurred by the Grain and Produce Division.

The department did not set fees for grain and produce inspection and weighing services at an amount sufficient to recover indirect costs of the division since fiscal year 1998. Minn. Stat. Section 17B.15 requires the commissioner of Agriculture to establish user fees at an amount sufficient to cover the expenses of carrying out and enforcing compliance with grain and produce laws and regulations, including a reserve sufficient for up to six months. The statute directs the commissioner to review the fee schedule twice each year, and grants the commissioner the authority to increase fees to recover costs if necessary.

Agriculture divisions incur various costs for administrative services that the department provides centrally such as accounting and payroll processing. The cost incurred for these administrative activities in so far as they benefit non-General Fund programs, must be recaptured under a cost allocation plan. This requirement applies to both statewide and agency indirect costs.

The Grain and Produce Division has not increased fees in several years. In a compliance review conducted in May 2003, the U.S. Department of Agriculture (USDA) reported that customers are already concerned with Minnesota's higher fees in relation to neighboring states, and that the division continues to lose money. The report indicated Minnesota needs to plan to update or replace aging equipment, and indicated that the USDA is concerned that operational improvements will be difficult to attain until the division establishes a sound financial base. The USDA has the authority to designate organizations to provide grain inspection services. In accordance with the designation agreement, the USDA must authorize any fee increases. The USDA is considering privatizing grain and produce inspection operations in Minnesota. The federal government plans to make a final decision regarding privatization by April 2005.

The Grain and Produce Division provides detailed inspection and weighing services that are geographically dispersed throughout Minnesota. We are concerned that the division continues to rely on a manual, labor-intensive process that is burdened with paperwork to administer a complex fee structure for invoicing customers. See Finding 3 regarding inaccuracies in the billing process.

Recommendations

- *The Department of Agriculture should develop a plan to ensure that Grain and Produce fees are set to recover all direct and indirect costs of operating the division. The fee structure should include a reserve amount determined by the commissioner.*

- *The department needs to critically evaluate the efficiency of grain and produce inspection processes and costs.*

3. Prior Recommendation Partially Implemented: The department did not take timely corrective action to ensure that grain and produce inspection fees were accurately billed and field collections were deposited.

The Grain and Produce Division's billing and collection practices require improvement. The division provides services to grain producers, shippers, terminal elevators and processors using official grain grades and weights. The services allow Minnesota grain producers, buyers, and sellers to market their grain using official grain grades and weights. The division employs inspectors located throughout the state.

We noted the following internal control weaknesses involving the division's billing and field collection procedures for inspection and weighing services. We made recommendations to improve these weaknesses in our audit report issued in 2001. Since then, the USDA has conducted four compliance reviews between September 2002 and February 2004. The compliance reviews reported concerns regarding a number of problems with fees and charges resulting in incorrect billings. Improvements were noted in the recent review, although errors and inaccuracies continue to be reported.

- In fiscal years 2001, 2002, and 2003, the division did not verify billings for inspection fees or supplemental charges prior to invoicing customers. The division has experienced numerous errors by not verifying the invoice to the supporting documentation prepared by inspectors. Similarly, supplemental charges were not reviewed and authorized by a division supervisor as required by department policy. The division incurs supplemental charges, such as overtime and standby hours, when inspectors are waiting for the grain shipment to arrive. Other supplemental charges occur when inspectors travel to inspection sites. The lack of supervisory approval for supplemental charges increases the risk that the billing information is inaccurate or incomplete.

- Commercial service tickets are not pre-numbered. Field inspectors use commercial service tickets to support cash receipts collected in the field for certain services provided. The division currently relies on an honor system to ensure that inspectors submit cash collected for field services to the division office for deposit into the state treasury. The department collected approximately $132,000 in commercial service tickets in fiscal year 2003. Without pre-numbered tickets and proper reconciliations, cash shortages may occur and remain undetected.

The division recently improved its controls to provide assurance over the accuracy of customer invoices. Starting in January 2004, the division implemented procedures that required supervisory review and approval of supplemental charges and also has made substantial progress verifying invoices to supporting documentation. However, verification procedures still lack timeliness and completeness. Recent reviews of grain and produce billings by the department and by the USDA have continued to report errors and inaccuracies in billings.

Recommendations

- *The Department of Agriculture should ensure the Grain and Produce Division continues to strengthen the accounting over receipts by:*

  -- *reconciling invoices with supporting documentation to verify the accuracy of inspection fees and supplemental charges;*

  -- *requiring that all supplemental charges be reviewed and signed by appropriate supervisory personnel; and*

  -- *using pre-numbered forms issued to customers and sequentially tracking commercial service tickets supporting field collections.*

4. Prior Recommendation Partially Implemented: The department has not referred old, uncollected accounts receivable balances to the Minnesota Collection Enterprise (MCE).

The department has not reported outstanding accounts receivable balances for the Grain and Produce Division to MCE, as required by statute. The department has, however, referred other uncollectible accounts to MCE, as recommended in a prior audit report. The Grain and Produce Division has been unable to determine accurate accounts receivable balances since implementing a computerized invoicing system. System design flaws contributed to numerous billing errors. Also, credit memos and receipts were not recorded in the computerized invoicing system. Other internal control problems, discussed in Finding 3, also contributed to incorrect accounts receivable balances. As a result, outstanding balances were not reported to MCE for collection.

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 if the debtor is adhering to an acceptable repayment plan.

Recommendations

- *The Grain and Produce Division needs to develop an efficient and effective method of managing its accounts receivable.*

- *The Department of Agriculture should report grain and produce uncollectible accounts receivable balances to the Minnesota Collection Enterprise in accordance with statutory requirements.*

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Chapter 3. Ethanol Grants

Chapter Conclusions

The Department of Agriculture's controls provided reasonable assurance that ethanol grants were properly accounted for. Ethanol grants we tested complied with statutory requirements.

The department annually disbursed about $34 million in ethanol grants in fiscal year 2001 and 2002, and only $15 million in fiscal year 2003 due to budget reductions. The ethanol development program encourages in-state production of ethanol, anhydrous alcohol, and wet alcohol by providing a subsidy for each gallon produced. Thirteen production facilities currently operate in Minnesota. During the audit period, Minn. Stat. Section 41A.09, Subd. 3a limited reimbursements for each producer's annual production to 20 cents per gallon. The limit was applied to each gallon produced on or before June 30, 2000, or ten years after the start of production, whichever is later. Once a plant's production capacity reached 15 million gallons per year, no additional increment qualified for the subsidy. Total annual payments to a producer could not exceed $3 million, with quarterly limits of $750,000. Effective July 1, 2004, Minnesota Session Laws of 2002, Chapter 220, Article 9, Section 6, Subd. 3a reduced the funding available for ethanol grants, producer limits, and subsidies per gallon. By statute, program subsidies end for ethanol production after June 30, 2010.

Audit Objectives

We focused our review of ethanol grants on the following questions:

- Did the department's controls provide reasonable assurance that ethanol grant payments were accurate, properly recorded on the state's accounting system, and processed in accordance with management's authorization?

- Were grant expenditures for ethanol grants paid in accordance with material finance-related legal provisions?

We did not report any findings related to the administration of ethanol grants.

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Chapter 4. Rural Finance Authority Loans

Chapter Conclusions

The Department of Agriculture's controls provided reasonable assurance that Rural Finance Authority (RFA) loans were properly accounted for and in compliance with statutory requirements.

The Rural Finance Authority loans we tested complied with statutory requirements.

The Rural Finance Authority (RFA), established in 1986, provides financial assistance to farmers and agricultural resource businesses. Under Minn. Stat. Section 41B, the Department of Finance issues bonds to provide funding for five RFA low interest loan programs. The bond proceeds provide affordable financing to farmers and rural agribusiness through approximately 420 participating banks. The Department of Agriculture funds four additional loan programs through revolving funds.

The state jointly funds RFA loans with participating banks. The state's participation in the loans is capped at specific dollar amounts, but cannot exceed 45 percent of the loan amount. Participating banks or sellers finance the remaining amount of the loan through cooperative financing efforts.

Loans to farmers financed through bond proceeds consist of the Basic Farm, Seller Assisted, Agriculture Improvement, Livestock Expansion, and Restructure II loans. The state's participation in these loans programs is capped at between $125,000 to $250,000. The financial activity for these loan programs in fiscal year 2003 is summarized in Table 4-1.

Table 4-1
Summary of RFA Loan Activity [1]
Fiscal Year 2003

Loan Program	Beginning Loan Balance	New Loans	Loan Repayments	Ending Loan Balance
Basic Farm	$34,928,842	$4,689,437	$(6,689,536)	$32,928,743
Seller Assisted	836,131	255,150	(162,985)	928,296
Agriculture Improvement	4,996,536	2,028,745	(1,017,178)	6,008,103
Livestock Expansion	4,543,438	572,850	(1,380,889)	3,735,399
Restructure II	9,034,981	1,559,008	(3,004,573)	7,589,416

Note (1): In addition to these loan programs, RFA managed approximately $1.3 million in revolving fund loan balances in fiscal year 2003 for the Value Added, Ethanol Development, Agro-Forestry, and Methane Digester loan programs.

Source: Minnesota Accounting and Procurement System (MAPS) as of September 2003.

Audit Objective

The primary objective of our audit was to answer the following questions:

- Did the department's controls provide assurance that Rural Finance Authority loans were properly accounted for and in compliance with statutory requirements?

- Did Rural Finance Authority loans comply with state statutes?

We did not report any written findings related to the administration of Rural Finance Authority loans.

Status of Prior Audit Issues
As of March 22, 2004

Most Recent Audit

Legislative Audit Report 01-38, covered the three fiscal years ending June 30, 2000. The audit focused on the internal control structure over license and fee revenues and payroll expenditures.

The report contained three findings. The first finding pertained to controls over supplemental charges and field collections for the Grain and Produce Division's revenues. The division did not implement the recommendations during the period ending June 30, 2003. However, as discussed in Finding 3 of this report, recent improvements to the control structure in January and February 2004 address some of the prior audit findings.

The second finding pertained to the reporting of uncollected accounts receivable to the Minnesota Collection Enterprise. As discussed in Finding 4, the department implemented the finding, except for the Grain and Produce Division.

The third prior finding pertained to the verification of a key biweekly payroll processing report. Payroll was not included in the scope of the current audit.

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.

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MINNESOTA DEPARTMENT OF AGRICULTURE
FROM THE FARM TO YOUR FAMILY

June 4, 2004

James R. Nobles
Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to discuss your findings related to the audit for the Minnesota Department of Agriculture (MDA). We remain committed to providing accurate financial information to state agencies, the legislature and the public, and we appreciate the contributions made by your office in this regard. We believe we have already made progress in the areas cited in the audit. We will continue to work toward improvements in the processes, as described in the following pages.

OLA Recommendation:

Agriculture should establish controls over receipt processing by:

- *Separating incompatible duties and incompatible security clearances to its business systems, and periodically monitoring the appropriateness of security clearances; and*
- *Ensuring that staff who are independent of the physical custody of receipts and who are not responsible for entering receipts into the accounting systems (LIS and MAPS) prepare reconciliations of receipt and deposit documentation to accounting information in the licensing system and the state's account system that are timely, authorized by supervisory personnel, and adequately documented.*

MDA Response:

We agree, and we believe we have resolved the issues raised in this recommendation. MDA has separated incompatible duties to ensure the separation of duties is distinct rather than merely a separation of tasks by personnel cross-trained to perform cashiering duties at peak renewal times. Also, we have modified security clearances. The MDA will monitor security clearances on a quarterly basis to ensure clearances are appropriate for duties assigned and performed.

Furthermore, MDA has re-assigned reconciliation duties to personnel independent of the cashiering or depositing systems. Reconciliations will continue to be on a monthly basis. Reconciliations documentation has been formalized to show the date and person performing the reconciliation.

OLA Recommendation:

- *The Department of Agriculture should develop a plan to ensure that Grain and Produce fees are set to recover all direct and indirect costs of operating the division. The fee structure should include a reserve amount determined by the commissioner; and*

- *The department needs to critically evaluate the efficiency of grain and produce inspection processes and costs.*

MDA Response:

We agree. However, it must be recognized that simply raising fees may not be a sufficient remedy. In recent years, MDA's grain inspection clients have voiced increasing frustration over what was perceived as the state's higher fees in relation to other official providers of such services. This frustration was reinforced by a study the department conducted, which showed that Minnesota has one of the highest fees for sampling, inspection and weighing services among all official providers.

However, the MDA recognizes the validity of the issue raised by the OLA and pledges to complete by August 30, 2004, an operational analysis that will analyze revenue and expenditures for the last three years. The analysis will compare direct expenditures as a percentage of revenue, overhead costs as a percentage of revenue and agency and statewide indirect costs as a percentage of revenue. The operational analysis will also compare revenue and expenses by service center, volume of inspection, testing and weighing activity for each service center as well as an analysis of staffing levels at each service center.

The analysis will enable the agency to make change recommendations on administrative structure, fees and staffing levels. Once the analysis is complete, the agency will make a request to USDA for an appropriate fee increase to meet the statutory requirement to cover costs and build a reserve.

Persons Responsible: Jim Boerboom and Al Louismet

OLA Recommendation:

The Department of Agriculture should ensure the Grain and Produce Division continues to strengthen the accounting over receipts by:

- *Reconciling invoices with supporting documentation to verify the accuracy of inspection fees and supplemental charges;*
- *Requiring that all supplemental charges be reviewed and signed by appropriate supervisory personnel; and*
- *Using pre-numbered forms issued to customers and sequentially tracking commercial service tickets supporting field collections.*

MDA Response:

We agree, and are taking action to address these issues. In fiscal year 2000, the agency initiated an effort to convert certification and billing programs from a DOS-based computer operating system to a Windows application. The agency underestimated the scope and demands of the conversion process. In September 2003, Budget and Finance staff began internal review process to verify accuracy of invoices by verifying information on customer service reports; FGIS Field Report matched the invoice.

In November 2003, the agency established a Steering Committee in to manage development of the Grain Inspection Software Program. Committee members include the director of the Human Resources Division, the assistant director of the Finance and Budget Division, and the director of the Information Services Division. The steering committee is chaired by Assistant Commissioner Jim Boerboom.
The first objective of the steering committee was to conduct a review and analysis of the software program. The review set out to determine what was working and what was not working, and what change requests or further edits needed to be made to meet GIPSA standards and customer expectations.

The second objective of the steering committee was to determine what office procedures were currently in place to support the program, whether office procedures should change to support the program, and what staff levels and responsibilities were required to support the operations and software program. Answers to these questions will determine the level of staff and administrative structure to support grain inspection services.

In February 2004 the Steering Committee began a full operational analysis of office procedures. Through this process, the agency will re-evaluate office procedures and field collection procedures to ensure fees are accurately billed and field collections correctly deposited. At the same time, a preliminary customer report will be developed from the software program to check accuracy of data entry from the initial data entry form. Invoices will be printed after data entry has been verified as accurate. The agency will write an operations manual for the software program, develop a checklist for office procedures, and conduct workshops for Grain Inspection staff on operational procedures for billing and field collection procedures by October 31, 2004.

Persons Responsible: Jim Boerboom and Al Louismet

OLA Recommendation:

- *The Grain and Produce Division needs to develop an efficient and effective method of managing its accounts receivable.*
- *The Department of Agriculture should report grain and produce uncollectible accounts receivable balances to the Minnesota Collection Enterprise in accordance with statutory requirements.*

MDA Response:

We agree, and are taking action to address these issues.

In January 2004, the steering committee initiated an effort to develop a report in the software package that accurately reflects the outstanding balance with customers.

The Budget and Finance Division is pulling data from an invoice database to generate a list showing customer balances and aging of accounts receivable. The report on customer balances will be compared to Grain Inspection Division internal records to determine accuracy of outstanding balances. The agency will call or visit customers with open accounts to compare our records with customer records. Companies with outstanding balances will be required to bring the account current. Failure to bring open accounts up to date will result in the uncollected balance referred to the Minnesota Collection Enterprise. The agency expects to complete this task by August 30, 2004.

Persons Responsible: Jim Boerboom

Thank you for the opportunity to respond to your findings and recommendations. We will be monitoring the implementation of these recommendations. Please contact Becky Leschner (651-215-5770) or Jim Boerboom (651-297-3395) for follow-up information and activity.

Sincerely,

Gene Hugoson

Gene Hugoson
Commissioner