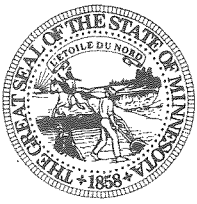


**DEPARTMENT OF AGRICULTURE
MANAGEMENT LETTER
FISCAL YEAR 1987**

FEBRUARY 1988

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Jim Nichols, Commissioner
Department of Agriculture
90 West Plato Blvd.
St. Paul, Minnesota 55107

Dear Commissioner Nichols:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. The scope of our work was limited to:

- the Family Farm Security Loan Program handled in the General Fund and the Special Revenue Fund; and
- your centralized function responsibilities for payroll processing.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. Even though no auditing of federal programs was done in your department during our fiscal year 1987 audit, the statewide single audit coverage still satisfies the federal government's current financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1987.

The current recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

1. The Family Farm Security Program participant report needs to be updated.

The Family Farm Security Program provides loan guarantees for eligible persons desiring to acquire farm land. To be eligible for the guarantee, an applicant must be a Minnesota resident, show that he has sufficient education/training/experience in the type of farming for which he wishes the loan, have a total net worth of less than \$75,000, be credit worthy, and intent to personally farm the land. Initial loan guarantees provide that in the event of a default, the State of Minnesota will pay the lender 90 percent of the sums due under the mortgage or contract for deed. However, in cases where a contract for deed participant has entered into an agreement whereby the outstanding principal balance of the loan is reduced by a minimum of 10 percent, the state pays the lender 100 percent of the amount due if a default occurs. During 1986, the Legislature limited the number of new loan guarantees. Consequently, no new loan guarantees have been approved since December 1985.

Although both the Agriculture Accounting Division and the Family Farm Security Program staff handle program accounting, it is the Farm Security staff that are primarily responsible for administering the program and compiling information. Accounting Division duties basically are limited to making payments, depositing receipts, reconciling receivables, and reviewing participants' files when an annual "Request for Payment" is received.

The Family Farm Security Program staff rely on a computer-generated report called the "Fiscal Year Participant Report" to identify the state's contingent liability for the loan guarantees. Entries are made from file documentation kept both in the Family Farm Section and the Department of Agriculture Accounting Division. This computer report is unreliable. The 1987 "Fiscal Year Participant Report" included 332 loans with reported present loan balances totaling \$40,365,697. Testing of 54 loans showed that in nine cases, the reported present loan balance was overstated, necessitating adjustments totaling \$348,676. The primary reason for the adjustments was that the program staff did not update computer information when participants withdrew from the program or obtained contract reductions. Other adjustments were necessary because the computer system did not automatically adjust loan balances to account for participant payments and the staff did not make the entries. The adjustments reduced the reported loan balance to \$40,017,021.

RECOMMENDATION

- Because the reporting of the state's contingent liability is an integral part of the state's financial statements, the Family Farm Security Program staff need to currently update each "Fiscal Year Participant Report" loan balance to ensure the accuracy of the total loan balance. The staff should initiate a system to assure that all subsequent transactions are properly entered and balanced with the files kept in the Accounting Division.
2. The Family Farm Advisory Council does not keep minutes of its loan review meetings.

The Family Farm Advisory Council is composed of seven members appointed by the Commissioner of Agriculture. The duties of the Council are to:

- make recommendations to the Commissioner of Agriculture, the Legislature, and the public concerning policy changes needed to promote the economic health and viability of the family farm, and
- review all applications for Family Farm Security Program loans and make recommendations regarding their disposition.

Most meetings of the Family Farm Advisory Council are open to the public, pursuant to the general guidance of Minn. Stat. Section 471.705. However, the Council also meets in closed sessions to review loan applications.

Mr. Jim Nichols, Commissioner
Department of Agriculture
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Although the Council keeps minutes for the public portion of its meetings, it does not keep minutes for its closed meetings. Consequently, individual Council member's actions and votes regarding loan recommendations are not documented.

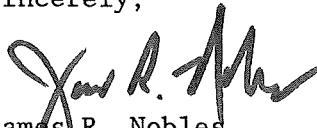
The Family Farm Program staff stated that the Council does not keep minutes of loan review meetings, because the matters discussed in these meetings are confidential pursuant to Minn. Stat. Section 13.31. However, this statute gives general guidance and simply restricts public access to confidential information. The statute does not prohibit the proper recording either of confidential information or of the proceedings of closed meetings. Moreover, Minn. Stat. Section 471.705 indicates that if a closed meeting is justified, the proceedings of the closed meeting should be properly documented. Another option for satisfying the documentation requirement would be to tape record the proceedings of all closed meetings. Therefore, in order to ensure that all members of the Council are on record regarding their decisions, the Council must properly document all actions taken at loan committee meetings.


RECOMMENDATION

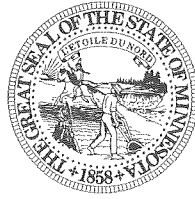
- The Family Farm Advisory Council should keep minutes of all actions taken at loan committee meetings.

Thank you for the cooperation extended our staff during this audit.

Sincerely,


James R. Nobles
Legislative Auditor
January 28, 1988


John Asmussen, CPA
Deputy Legislative Auditor



LAND OF QUALITY FOODS

90 W. PLATO BOULEVARD
SAINT PAUL, MN 55107

STATE OF MINNESOTA
DEPARTMENT OF AGRICULTURE

January 28, 1988

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We have reviewed the Legislative Audit Recommendations concerning the Family Farm Security Loan Program and appreciate the opportunity to respond to these recommendations as follows:

1. The Family Farm Security Program participant report needs to be updated.

RECOMMENDATION

Because the reporting of the state's contingent liability is an integral part of the state's financial statements, the Family Farm Security Program staff needs to currently update each "Fiscal Year Participant Report" loan balance to ensure the accuracy of the total loan balance. The staff should initiate a system to assure that all subsequent transactions are properly entered and balanced with the files kept in the Accounting Division.

AGENCY RESPONSE

The period covered by the most recent audit was one of extremely high activity in contract for deed reductions and defaults. The computer system being used by the Farm Security Program is one that has had problems since ISB initiated it in 1980. All changes in payment schedules had to be completely hand entered and to make any adjustments in the data bank was time consuming. There was also computer generated information that was in error, but no explanation could be found for why the system did not generate the correct numbers.

We had already taken a major step to correct this deficiency prior to the audit. A microcomputer had been purchased and in January of 1987, a programmer analyst was hired to convert from the old TI 990 minicomputer to an IBM AT microcomputer. This conversion is almost complete. The improvement in systems is marked. We now have a considerably more user friendly system that will allow for much easier and quicker changes in amortization schedules and in correcting other information in the data bank.



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There has always been an annual review of every participant file. Information contained in the computer system is verified with that in the file. Consequently, sometime during a twelve month period, any errors in not removing a defaulted participant or not adjusting an amortization schedule would be discovered. In order to shorten the lag time in correcting the computer data bank, staff of the Department's Accounting Division will provide the Farm Security Office with apparent discrepancies that appear in the monthly payment reviews. The Farm Security staff will review this information and make the necessary adjustments on a timely basis.

2. The Family Farm Advisory Council does not keep minutes of its loan review meetings.

RECOMMENDATION

The Family Farm Advisory Council should keep minutes of all actions taken at loan committee meetings.

AGENCY RESPONSE

The Farm Security Act was passed in 1976. A seven person advisory council was named shortly after passage. Several of the original members still serve on the council. They have provided this Department with excellent guidance, have faced many a difficult decision and have met with legislative bodies annually. At no time has their integrity been questioned.

The program has been placed on hold. No new applications have been considered since February, 1986. An agenda of all applications to be considered by the Council has always been maintained and the Council's recommendation is found in each file considered. Anyone concerned about Council actions could go to the agenda and then the participant file. Minutes of all public meetings of the Council are on file. We see no need or benefit of maintaining a detailed set of minutes of the closed loan committee session that then have to be maintained under some type of secured system. The Council met only once in 1987. They will meet very sporadically from now on. To implement a requirement of minutes of loan review meetings at this time seems to be addressing a moot point and unnecessary.

We want to thank you for the assistance your auditors have provided to this agency, and for the opportunity to respond to your proposed recommendations.

Sincerely,

MINNESOTA DEPARTMENT OF AGRICULTURE



Jim Nichols
Commissioner

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