DEPARTMENT OF AGRICULTURE
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1989

JANUARY 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-4

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

DEPARTMENT OF AGRICULTURE

FINANCIAL AUDIT
JULY 1, 1985 - JUNE 30, 1989

Public Release Date: January 18, 1990 No. 90-4

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Receipts, administrative disbursements, and the Family Farm Security Loan Program. Department payroll was not audited.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

- Internal controls, except for payroll which was not audited, were found to be effective overall. Specific weaknesses in controls were cited for:
  - Family Farm Security Loan Program (five findings).
  - Minneapolis Grain Division billings and receipts (two findings).
  - Central Accounting Division receipts (one finding).
  - Nursery Inspection Division billings (one finding).
  - 1989 haylifts (one finding).
  - Farm Advocate Program (one finding).
  - Purchasing controls (one finding).
- Noncompliance with finance-related legal provisions was cited for:
  - Family Farm Security Loan Program's statutory authority.
  - Deposit of fruit and vegetable inspection fees.
  - Wholesale produce dealer licenses.
  - Consultants retained under the state contract policy.
  - Maintaining a Plant Industry Division bank account.

Contact the Financial Audit Division for additional information.
(612) 296-1730

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Jim Nichols, Commissioner
Department of Agriculture

Audit Scope

We have completed a financial and compliance audit of the Department of Agriculture for the four years ended June 30, 1989. We have issued separate management letters dated October 8, 1986, January 28, 1988, November 28, 1988, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1986, 1987, and 1988. We also issued a Special Review of Selected Issues on June 22, 1988. Section I provides a brief description of the department's activities and finances.

Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Scope Limitation

We did not evaluate internal accounting controls or test any transactions relating to the payroll for the Department of Agriculture at any of its locations.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems over receipts, federal grants and agreements, administrative disbursements, and the Family Farm Security Loan program at the Department of Agriculture. We evaluated the system as of June 30, 1989.

The management of the Department of Agriculture is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may have deteriorated.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Department of Agriculture is governed generally by Minn. Stat. Chapters 17 to 34, 40, 40A, 41, 42, 223, 231, and Sections 38.02, 308.92, and 500.24. These sections create the agency and establish the general purpose for its financial transactions.

Department of Agriculture financial transactions are subject to certain general legal provisions which affect the financial management of most state agencies. Specifically, Minn. Stat. Section 16A.275 requires the prompt deposit of receipts and Section 16A.15 Subd. 3 requires that funds be encumbered prior to obligation. Minn. Stat. Section 10.12, Subd. 1 requires any uncollectible account over $100 to be submitted to the executive council for write-off. Minn. Stat. Section 10.12, Subd. 2 allows state agencies to cancel any accounts under $100 upon approval by the attorney general. Minn. Stat. Section 16B.06, Subd. 2 describes the execution of contracts. Minn. Stat. Section 16B.07, Subd. 4 requires three competitive bids for purchases, sales or rentals if $15,000 or less. Minn. Stat. Section 16B.09, Subd. 1 requires all bids must be awarded to the lowest responsible bidder. Minn. Stat. Section 16B.17 governs consultants' and technical services' contracts. Minn. Stat. Section 176.182 requires agencies to withhold the issuance or renewal of a license until the applicant presents acceptable evidence of compliance with workers' compensation insurance coverage requirements.

The Department of Agriculture received General Fund appropriations for agriculture protection, agriculture promotion, administration and financial aids, and soil and water conservation for fiscal years 1986 and 1987, in Minn. Laws 1985, First Special Session, Chapter 10, Section 5. In addition, the department received General Fund appropriations to make grants to Minnesota nonprofit organizations to buy agricultural commodities to ship to areas of Africa in need of famine relief in Minn. Laws 1985, First Special Session, Chapter 13, Section 54. In Minn. Laws 1986, Chapter 398, Article 29, Section 1, the Department of Agriculture received appropriations for the Farm Advocate Program and the Family Farm Security Loan Program. The Department of Agriculture received General Fund appropriations for protection service, family farm security, and administrative support and grants for fiscal years 1988 and 1989, in Minn. Laws 1987, Chapter 358, Section 7. In Minn. Laws 1988, Chapter 684, Article 1, Section 5, the department received an additional appropriation for oak wilt control. Also, in Minn. Laws 1988, Chapter 688, Article 21, the department received appropriations for various programs such as organic food certification, the sustainable agriculture program, and Minnesota grown labeling. The department received deficiency appropriations for aflatoxin and varroa mite testing and for another haylift in Minn. Laws, Chapter 300, Article 3, Section 4, Subd. 2. The Department of Agriculture also received emergency funds from the Legislative Advisory Commission for haylift 1, for the Farm Advocate Program, and for salmonella testing.

The management of the Department of Agriculture is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Agriculture had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

Status of Prior Audit Findings

We have reviewed the status of the four audit findings which apply to the Department of Agriculture in the audit report for the three years ended June 30, 1985. Department staff have substantially implemented all prior audit recommendations.

Conclusions

In our opinion, the Department of Agriculture's system of internal accounting control in effect on June 30, 1989, taken as a whole, except for the effects, if any, of the payroll records which were not audited as described in the Scope Limitation section of this letter, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Section II, findings 2 through 6, represent weaknesses in Department of Agriculture controls over the Family Farm Security Loan Program. Findings 7 and 8 represent weaknesses in the Minneapolis Grain Division's billings and receipts procedures. Finding 9 represents weaknesses in Central Accounting Division's receipts procedures. Finding 10 represents weaknesses in controls over fiscal year 1989 haylifts. Finding 11 represents weaknesses in special inspections billings policy pursuant to Minn. Stat. Section 18.54. Finding 14 discusses the need to strengthen controls over the Farm Advocate Program. Finding 15 represents weaknesses in purchasing controls. We believe that these weaknesses subject the department to an unnecessary financial risk and should be corrected.

The results of our testing of transactions and records indicate that the Department of Agriculture complied with the aforementioned finance-related legal provisions, except for the findings discussed in Section II of the report. Finding 1 relates to clarification of the Family Farm Security Loan Program's statutory authority. Finding 12 discusses noncompliance regarding billings and deposits subject to Minn. Stat. Section 27.07. Finding 13 discusses noncompliance in licensing wholesale produce dealers. Finding 16 discusses noncompliance with state contract policy. Finding 17 recommends the closing of a bank account outside the state system. Nothing came to our attention in connection with our audit that caused us to believe that the Department of Agriculture was not in compliance with other applicable legal reqirements.

We would like to thank the Department of Agriculture staff for their cooperation during this audit. Progress on resolving the findings discussed in this report will be reveiwed within the next year.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: September 13, 1989

REPORT SIGNED ON: January 10, 1990

DEPARTMENT OF AGRICULTURE

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jean Mellett	Auditor-in-Charge
Peter Olesen	Audit Intern

EXIT CONFERENCE

The finding and recommendations in this report were discussed with the following staff of the Department of Agriculture on December 7, 1989:

Jim Nichols	Commissioner
Patricia Jensen	Deputy Commissioner
Joseph Komro	Director, Accounting Division
Orrin Bakke	Assistant Director, Accounting Division
Barbara Kryzer	Accounting Officer
Wayne Marzolf	Director, Family Farm Security Program
Edward Moline	Director, Grain Inspection Division
Judy Wickham	Office Services Supervisor
Arthur Mason	Director, Plant Industry Division

DEPARTMENT OF AGRICULTURE

I. INTRODUCTION

The Department of Agriculture is primarily a regulatory agency. The department operates under Minn. Stat. Chapters 17-34, 40-42, 223, and 231, and administers programs which promote agriculture, the family farm, and conservation practices. It encourages the development of agricultural industries through market development, both nationally and internationally. The department currently is headed by Jim Nichols, a commissioner appointed by the Governor.

Activities of the Department of Agriculture are financed mainly by appropriations from the General Fund and departmental revenue consisting primarily of license, registration, and service fees. Department of Agriculture revenue totaled $19,563,848 in fiscal year 1989 and $16,066,213 in fiscal year 1988. Fiscal year 1989 expenditures including encumbrances totaled $29,993,533, and fiscal year 1988 disbursements totaled $34,882,410. The following financial summary shows department disbursements by fund.

	Fiscal Year 1988	Fiscal Year 1989
General Fund		
Payroll	$ 6,256,765	$ 6,534,809
Expenses/contractual	1,315,675	2,312,040
Miscellaneous operating	728,206	793,426
Supplies	199,378	593,280
Capital equipment	257,933	219,651
Grants and aids	3,933,315	2,133,197
Nonexpense disbursements	1,153,016	954,078
Total	$13,844,288	$13,540,481
Special Revenue Fund		
Payroll	$ 7,210,904	$ 7,455,579
Expenses/contractual	885,894	1,115,827
Miscellaneous operating	808,997	796,029
Supplies	111,400	192,389
Capital equipment	209,550	337,232
Real property	7,772,155	1,699,350
Grants and aids	35,000	35,024
Nonexpense disbursements	31,213	19,124
Total	$17,065,113	$11,650,554
Other Funds		
Payroll	$ 432,446	$ 535,694
Expenses/contractual	640,521	1,151 833
Miscellaneous operating	162,085	245,238
Supplies	61,486	64,469
Capital equipment	156,407	59,369
Real property	2,304,358	2,452,979
Grants and aids	100,622	139,567
Nonexpense disbursements	2,500	25,180
Total	$ 3,860,425	$ 4,674,329

In addition, the Department of Agriculture paid indirect costs of $112,584 in fiscal year 1988 and $128,169 in fiscal year 1989.

Source: Manager's Financial Reports as of September 3, 1988 and September 4, 1989.

II. CURRENT FINDINGS AND RECOMMENDATIONS

A. FAMILY FARM SECURITY LOAN PROGRAM

The Family Farm Security Loan Program was established in 1976 to assist beginning farmers in purchasing farm real estate. The program offered two forms of assistance: loan guarantees and payment adjustment loans. Payment adjustment loans are required to be repaid in one lump-sum at a future date. Unfavorable economic conditions and a significant decrease in agricultural land values have resulted in a high default rate for program participants. In an effort to fund the guarantee obligations, the state established a special bond account for the program. Pursuant to Minn. Stat. Section 41.56, Subd. 4B, proceeds from the sale of farms obtained with bond proceeds shall be returned to the bond fund to the extent that funds were issued. The remaining balance, if any, is to be used to reduce any outstanding interest payment adjustment balance.

Two sections of the Department of Agriculture administer the program. The family farm security (FFS) section authorizes interest adjustment payments and maintains individual participant records. The Accounting Division makes all payments and maintains a loans receivable control account. The control account balance is certified to the Department of Finance at year-end for inclusion in the state's comprehensive annual financial report.

1. <u>The Family Farm Security Loan Program needs to clarify its statutory authority</u>.

We have two concerns regarding FFS settlements with defaulted participants. First, we question whether state law authorizes the buyout of loan guarantees. Second, we question whether it authorizes the FFS to renegotiate sales to defaulted participants.

The FFS executed two buyouts of Family Farm Security Loan guarantees in fiscal year 1989 and one buyout of a guarantee in fiscal year 1987. In conjunction with the buyouts, the participants also were released from their liability to repay state interest adjustment loans. In one example, a defaulted participant and a lender agreed to withdraw from the FFS program after participating in mandatory mediation. The terms of the agreement required the state to pay the seller $41,000 and to release the participant from his obligation to repay his $43,122 interest adjustment loan. Under Minn. Stat. Section 41.56, Subd. 3, only two options are available to the seller of a seller-sponsored loan when the participant (buyer) has missed loan payments. The lender may assign "to the state all of the lender's security and interest in the loan in exchange for payment according to the terms of the family farm security loan guarantee" or "the seller may elect to pay the commissioner all sums owed the commissioner by the participant and retain title to the property in lieu of payment by the commissioner under the terms of the loan guarantee."

The FFS cites a 1989 delegation from the state's Executive Council as its authority for the buyout transactions. Pursuant to Minn. Stat. Section

10.11, Subd.1, the Executive Council has the following power to compromise state claims:

> ...when the strict enforcement by the state of a demand for money or other property against any person is deemed by the attorney general to be impractible or inequitable, the attorney general may submit the same to the executive council for compromise. The executive council shall consider the equities of the case, the situation and financial ability of the debtors, and the interests of the state and determine, in writing, upon what terms the demand in question should be settled as against all or any of the parties thereto.

In May 1986, the Commissioner of Agriculture asked the Executive Council for permission to use its authority under Minn. Stat. Section 10.11 "to forgive all or part of the payment adjustments owing to the state during the mediation...". The Commissioner also proposed that "the Executive Council allow the Department to forgive payment adjustments and renegotiate the purchase price in mediation ..." after the guarantee has been paid out. The Commissioner promised to observe certain safeguards. For example, the department agreed to evaluate cases prior to mediation and to prepare reports summarizing the results of mediation. The Commissioner also promised that he would pay particular attention to the arms length nature of the property transaction and stated that "No payment adjustment would be forgiven if the effect of the forgiveness was to impair the state's security".

The Executive Council obliged the Commissioner's request by delegating its authority to the Commissioner of Administration, subject to two conditions:

1. The delegation shall only apply to compromises arising from mediation pursuant to the Minnesota Farmer-Lender Mediation Act (Laws 1986, Chapter 398, Article I) related to the state's interest under the Family Farm Security Act (Minn. Stat. Chapter 41); and

2. The Executive Secretary shall report in writing to each member of the Executive Council as to all compromises entered into pursuant to this delegation promptly after the taking of such action.

We do not believe that the Executive Council's 1986 response extended authority to a buyout of the guarantee. Furthermore, we question whether Minn. Stat. Section 10.11 would authorize the Executive Council to participate in decisions regarding guarantee buyouts. First, the Commissioner's 1986 request did not address buyouts of guarantees or propose that the Executive Council's powers extended to approval of these transactions. Second, in the 1986 delegation request, the Commissioner specifically agreed to safeguard the state's security. In fact, these agreements terminate the state's interest in the property. Third, sellers are not debtors of the state. In buyout situations, the state is not enforcing a demand "for money or other property" against sellers. Rather, the state is paying money to sellers.

We are concerned with the precedent set by the approval of guarantee buyouts. Ninety percent of loans guaranteed by the FFS represent seller-sponsored agreements. Many of the agreements are between fathers and sons and present a possibility of collusion between buyer and seller to obtain unwarranted payments from the state. The department needs to obtain an Attorney General's opinion to determine whether the 1986 delegation of authority authorizes the Executive Council to approve guarantee buyouts.

Family Farm staff have negotiated "sellbacks" with defaulted participants without publicly listing the property for sale. Minn. Stat. Section 41.56, Subd. 4 requires:

> In the event that title to any property is acquired by the state, upon conveyance of title to the state and expiration of the period of redemption, the commissioner shall undertake to sell the property by publishing a notice of the impending sale at least once each week for four successive weeks in a legal newspaper...

FFS believes that public notice is not required for renegotiated purchase price agreements because the state has not yet acquired title to the land. The FFS cites the Executive Council's 1986 delegation of authority for renegotiating purchase price after the guarantee has been paid out but before the state has clear title to the land. In his 1986 request, the Commissioner requested the Executive Council to allow "the Department to forgive payment adjustments and renegotiate the purchase price in mediation prior to contract for deed cancellation or foreclosure". The Executive Council approved this request. We question whether the Executive Council's compromise powers apply to "sellbacks". We also are concerned that participation in sellbacks may affect FFS compliance with other statutes.

RECOMMENDATION

- **The FFS should request an Attorney General's opinion on the applicability of Minn. Stat. Section 10.11 to guarantee buyouts and renegotion of purchase prices.**

2. <u>FFS needs to provide independent verification of agreement terms</u>.

FFS has not provided independent verification that the terms of farm sales, farm renegotiations, and program withdrawals reflect market values. For example, FFS did not obtain an appraisal of the land value before recommending that the state pay $41,000 to buy out the guarantee and forgive the $43,122 interest adjustment loan referred to in finding 1. In that case, the state incurred an $84,122 loss. Whether the state would have incurred a greater loss by taking title to the land depends upon the land's value. Payment on the state's guarantee, together with accrued interest, and forgiveness of the interest adjustment loan would have cost the state $160,622. A 1980 independent appraisal valued the participant's 120 acre farm at $230,000. A 1988 property tax statement shows an estimated market value of $85,900, which would put the loss at $74,722. In fiscal year 1989, FFS estimated the farm's potential sales price at $74,000 to $76,000 and recommended to the Executive Council designee who approves debt forgiveness agreements that:

> The State pay out no more than $42,000 to buy out of the guarantee subject to withdrawal by seller and . . . or possibly agree to a sell-back to . . . for no less than $74,000 cash. In either scenario, the total interest adjustment lien would be forgiven.

The Executive Council designee agreed with the recommendation even though he had not received an independent appraisal certifying the farm's value. Assuming a sales price of $74,000, the loss would have been $86,622. The FFS's estimated selling price of $74,000 is approximately $617 per acre. We called to obtain a sample of land values in the general area where the participant's land was located to determine sales prices per acre during late 1988 and during 1989. Sales prices ranged from $803 per acre to $958 per acre. The sale with the lowest price per acre took place in December 1988 and was for bare land. The FFS needs to provide independent verification that the terms of FFS agreements are in the best interests of the state.

In another case, the FFS sold a farm on a contract for zero percent interest. The department agreed to accept a series of cash payments totaling $80,000 ($1,575 semiannually and a final balloon payment of $65,825). Market value interest rates were approximately 10 percent. Therefore, the department agreed to an effecive sales price of $51,600 for this property. The director of the FFS believes that $51,600 was a reasonable price for the farm because the sale was made when land values were declining. The FFS did not obtain an independent appraisal to verify the value of the farm.

RECOMMENDATION

- **The FFS should obtain independent appraisals to verify that the terms of guarantee buyouts, renegotiations, and farm sales are in the best interests of the state. FFS should send appraisals, as well as recommendations to the Executive Council designee.**

3. Family Farm Security Loan Program accounting controls need improvement.

Participant information supplied by the FFS was not always accurate. In a few cases, defaulted participants were included on program lists when they should have been on the defaulted property list. In a few other cases, the loan receivable balances were understated. These types of errors, if not detected, could result in financial statement misrepresentation.

The Family Farm Security Program (FFS), the Agriculture Accounting Division, and the Department of Finance each had a different balance for both four percent interest adjustment and special payment assistance loans receivable as of June 30, 1989. According to Department of Finance staff, the last time their receivable balances matched Agriculture's balances was June 1988. Our 1988 management letter recommended that Agriculture staff reconcile four percent interest adjustment and special payment assistance loan receivable control accounts to subsidiary records. They did not reconcile these accounts during fiscal year 1989. This reconciliation is necessary to ensure accurate financial statement representation of loans receivable.

RECOMMENDATIONS

- **The FFS staff should establish procedures to ensure that all participant documentation is complete and accurate.**

- **The Accounting Division should do a formal monthly reconciliation of the loan receivable balances.**

4. Special payment assistance loan repayment procedures need to be improved.

Special payment assistance loan repayment billings are not always sent out early enough to allow participants to make their payments on time. In one case the billing was sent out 20 days after its due date. Late billings cause the state to lose potential interest income.

Special payment assistance loans are not always being repaid according to the terms of the loan agreement. The FFS staff have requested and accepted smaller payments than agreed upon. One participant who had a payment due of $1,450 paid only $200 of this amount. In another case, a participant missed a payment, and it was not followed up until six months later. The delayed follow up may result in a greater loss to the state in the event the participant defaults. Staff need to follow up missed payments promptly.

RECOMMENDATIONS

- **The FFS should send advance billings for special payment assistance loan repayments.**

- **The FFS should follow up missed or late payments promptly.**

5. The FFS does not require proof of insurance for all participants that have insurable buildings.

The FFS requires insurance only on the properties that the state owns. In cases where the state is acting as the guarantor of the loan, and not the property owner, there is no requirement that the buyer demonstrate proof of fire and wind coverage. The FFS maintains that insurance coverage is a matter between the buyer and the seller.

We believe that since the state is the guarantor of these loans, the lack of insurance coverage could cause the state to incur a substantial loss due to fire or wind damage. In such an event, the buyer would be much more likely to default, thereby requiring the state to pay the seller in performance of the loan guarantee. Since the majority of these buyers are required to submit other documentation annually to the FFS, requiring proof of insurance coverage would not present an undue burden.

RECOMMENDATION

- **The FFS should request proof of fire and wind insurance in all cases where the state is acting as guarantor of the loan. The proof of insurance should be maintained on file by the FFS.**

6. Procedures for handling rental property need to be improved.

Rental payments are not always received timely. The FFS occasionally rents a farm in two separate contracts, the building site contract and the farm land contract. Building site rents are sometimes late, in some cases several months late. In one case, building site rent that was due in January was not fully collected until April. The state loses potential interest income as a result.

In some cases, leases have expired and both the renter and the FFS have continued to operate as if they still have a binding contract. In one case, the parties continued to operate without a lease for a year.

RECOMMENDATIONS

- **The FFS should more consistently and vigorously follow up late rental payments.**
- **All property that is rented should have a current lease contract on file. The state should not continue to rent property without a binding contract with the renter.**

B. COLLECTING AND PROCESSING RECEIPTS

7. The Minneapolis Grain Division has billed inaccurately for grain inspections.

Controls over Minneapolis Grain Division billings for inspections are inadequate. Specifically, the division does not have procedures to ensure that billing information is accurate, reliable, and adequately identifies payors for services. Division staff often do not correctly identify either the client or the client's location. As a result, division staff sometimes bill more than one client or location for the same inspection. Testing showed that the Minneapolis Grain Division has triple- and double-billed invoices. Minneapolis Grain staff said that they often do not know who to bill for services, because the division has two clients for each inspection--the elevator and the company. Staff said the two clients must decide who will pay for the inspection.

The billing confusion also creates a problem for the St. Paul Accounting Division staff who have been following up on the Grain Division's past due accounts. Minneapolis Grain staff void many invoices because the billings are wrong. The division, however, has failed to notify the Accounting Division staff when invoices were voided and rebilled. Consequently, the Accounting Division has sent letters demanding payment from clients who were wrongly billed. The Minneapolis Grain Division needs to investigate the source of the division's billing problems and correct the billing process.

RECOMMENDATIONS

- **Minneapolis Grain staff should promptly notify the St. Paul Accounting Division of billing errors so that voided invoices can be removed from the open invoice files.**

- **Minneapolis Grain staff should revise billing procedures to ensure that billings are accurate and all services are paid.**

8. <u>The Minneapolis Grain Division needs to strengthen controls over warehouse receipts</u>.

Duties are inadequately separated over grain buyers and warehouse operators license programs. One Minneapolis employee is responsible for these programs. This employee both prepares deposits and maintains records for grain buyers and warehouse operators licenses. No one reconciles program receipts to statewide accounting records. Duties need to be separated so that the person who prepares the deposit does not maintain license records. Staff need to reconcile deposits to statewide accounting reports to ensure that all receipts reach the St. Paul Accounting Division and are deposited in the appropriate accounts.

RECOMMENDATIONS

- Grain warehouse receipts duties should be adequately separated.

- Grain warehouse staff should reconcile receipts to statewide accounting records.

9. <u>The Department of Agriculture needs to strengthen controls over receipts processed through its St. Paul office</u>.

The Department of Agriculture receives revenue from many different sources, such as license and service fees and land sales. Department of Agriculture receipts have increased in each of the last three fiscal years. Department receipts totalled approximately $12,400,000, $16,066,000, and $19,564,000 in fiscal years 1987, 1988, and 1989, respectively. Because Agriculture's receipts are diverse, it is especially important for the department to have strong controls over receipts. We found the following weaknesses in internal controls over receipts:

-- Some mail receipts are sent to the divisions rather than to the cashier. An example of a division which normally processes its own receipts is the Family Farm Security Loan Program. These receipts are not opened in the mailroom, included in the mailroom receipt total, date stamped or immediately stamped with a restrictive endorsement. Typically, the divisions which receive their own receipts do not list them. The practice presents an unacceptable control risk because receipts could be diverted. Unless justified, control needs to be established by the mailroom.

-- Mail receipts are not deposited promptly. Receipt documentation, such as date-stamped applications and service fee invoices, showed that department staff generally deposited receipts three to seven days after they were received. If receipts are not promptly deposited, there is an increased risk that they could be lost or stolen. Also the state loses interest income. Minn. Stat. Section 16A.275 requires agencies to deposit receipts totalling $250 or more on a daily basis.

-- The Department of Agriculture coded fiscal year 1989 receipts to fiscal year 1990. On July 5, 1989, July 6, 1989, and July 10, 1989, department staff deposited $130,233.89, $75,533.28 and $67,567.71, respectively. These receipts were received in the mailroom on June 28, 1989, June 29, 1989, and June 30, 1989. Department staff should have coded these receipts to fiscal year 1989.

-- Receipts which the cashier does not include in the daily deposit are not adequately documented. "Return" receipts may include incorrect checks, receipts which should have been routed to divisions, special deposit items, or receipts that could not be included in the deposit because of computer limitations. Although staff record returned amounts on a tape, the cashier does not document what the amounts represent. On June 28, 1989, June 29, 1989, and June 30, 1989, "returned" items totalled $11,000, $6,331, and $19,482, respectively. "Returns" for the month of June 1989 totalled $408,981. These receipts are to be deposited the same day they are received in order to maximize interest income and to minimize the possibility of these receipts being lost or stolen. The cashier needs to document return items. Returns need detailed explanations and independent verification. A person independent of the cashier needs to review and approve these items.

RECOMMENDATIONS

- **All mail receipts should be totalled and taken directly to the cashier for deposit without routing to processing divisions.**

- **Department of Agriculture staff should deposit receipts promptly according to the requirements of Minn. Stat. Section 16A.275.**

- **Department of Agriculture staff should code deposits to the proper fiscal year.**

- **Department of Agriculture staff should document "return" items.**

10. Internal controls over fiscal year 1989 haylifts were weak.

The Department of Agriculture conducted two haylifts during fiscal year 1989. The program provided hay to dairy and livestock farmers whose fields had been ravaged by the severe drought of 1988. Through a telephone hotline, the department arranged to buy and sell hay. The department received special appropriations to pay for hay, hauling, and other costs associated with the haylift. The Department of Agriculture, however, relied on farmers to reimburse the agency for the cost of hay. Although the department purchased almost $258,000 worth of hay, as of August 1989, reimbursement totalled only $129,325. Because controls over the program were weak, the department and the state have lost money on the program. Specifically:

-- Agriculture staff did not bill for approximately $30,000 worth of hay bought for haylift 1. Agriculture staff stated that the $30,000 in unbilled hay represents spoiled hay, markdowns in prices and voided invoices. Agriculture staff did not have adequate control over hay inventory. Staff records show neither the amount nor the origin of hay delivered to haylift 1 dropsites. The records are necessary to determine which vendors sold spoiled and watered down hay to the department. Staff have documented approximately $4,000 of the $30,000 loss. Records kept by department staff are not adequate to determine the disposition of the remaining $26,000 in unbilled hay.

-- Purchasing controls such as the inspection of goods and documentation of purchases were inadequate. Hay purchased for the first haylift was not inspected. As a result, the state paid for hay which could not be sold. According to a volunteer, hay delivered to one dropsite was so waterlogged and spoiled that the volunteers had to bury it. Documentation of hay purchases was not always adequate. Accounting staff sometimes did not receive weight tickets to support the quantity of hay bought. Also, names on some invoices were changed without explanation. Internal records of hay purchases do not always agree with statewide accounting vendor records.

-- Agriculture staff did not use contractual agreements to document hauling, loading and other incidental purchases. Rather, Agriculture staff relied on oral agreements. Some vendors apparently ignored or did not understand the department's verbal price agreements and tried to charge for excluded services or higher prices than the department planned to pay. For example, the department agreed to pay loaders $10 per hour, although some vendors billed at higher rates. In one case, the department paid volunteers to stack and load hay. The department was not obligated to pay costs for stacking hay. Agriculture staff said that the department did not use written contractual agreements because haylift purchases were made during an emergency. However, we believe that the department needs some form of pricing information.

-- Agriculture staff already have prepared a list of haylift 1 debts totaling $3,700 to submit to the Executive Council for forgiveness. Minn. Stat. Sections 10.12 and 10.15 state that debts over $100 may not be written off until they become uncollectible and that debts over $500 may not be written off for three years. Department staff need to continue collection efforts, including revenue recapture, until these debts are eligible for forgiveness. As of August 30, 1989, $176,000 had been billed for haylift 2, and collections were $81,600. A total of $94,400 remains uncollected for haylift 2.

-- Pursuant to Minn. Laws 1989, Chapter 300, Article 3, the Department of Agriculture received a $100,000 appropriation "for another haylift to help farmers who are short of hay to feed their livestock." Staff used the appropriation to pay for costs incidental to the haylift, such as hauling and loading costs. Also, department staff transferred $2,970 in haylift 1 expense to haylift 2. The department used salary savings and other appropriations to pay for hay. Staff expected farmers to reimburse the department for the cost of the hay. The Department of Agriculture, however, did not have the authority to retain receipts from selling hay. Therefore, Agriculture staff recorded haylift 2 money as expenditure refunds, rather than receipts. At the end of fiscal year 1989, agency staff began depositing haylift receipts into the department's external audits account, because the option of depositing receipts as expenditure refunds was no longer available. Hay receipts should have been deposited as nondedicated receipts in the General Fund. Agriculture's haylift 2 appropriation did not authorize the agency to add receipts to the haylift appropriation. Agency staff stated that Agriculture's authority to buy and sell hay was the surplus property statute, Minn. Stat. Section 16B.29. The surplus property statute permits agencies to retain receipts for the purpose of purchasing "similar needed supplies, materials, and equipment." Hay did not belong in any of these categories for department operations.

RECOMMENDATIONS

- **The department should document the reasons that $30,000 worth of hay was not billed to farmers and request payment for all unpaid accounts.**

- **The department should continue collection efforts until debts are eligible to be written off.**

- **In future emergency purchase situations, the department should document agreements with purchase orders or other documentation.**

- **Hay receipts deposited to the department's accounts in the year ended June 30, 1990, should be transferred to the General Fund as nondedicated receipts.**

11. <u>The Nursery Inspection Division does not have a clear billing policy for special inspections</u>.

The Nursery Inspection Division does not have a clear billing policy for special inspections in which inspectors certify that plants are free from pests. Testing of special inspections certificates and billings showed that nursery inspectors do not record all special inspections or bill for them.

Minn. Stat. Section 18.54 requires the Commissioner of Agriculture to set a fee for special inspections. The fee currently is $20 plus expenses. Agriculture staff said, however, that inspectors do not bill customers who bring plants to the Department of Agriculture building in St. Paul. Staff also said inspectors may not bill customers if the inspector performs the inspection on the way home from work or if he is in the vicinity of a regular inspection. Inspectors also may not bill special inspections for nursery license holders. The Department of Agriculture needs to formulate a clear billing policy in order to ensure that inspectors are collecting all revenues due the state. In addition, nursery inspectors need a log to document inspections performed.

Nursery inspectors stated that they rarely use the prenumbered receipt books which have been issued to them. Rather, they use invoices as receipts. Although the invoices are prenumbered, staff do not keep a record of invoices issued.

RECOMMENDATIONS

- **The Department of Agriculture should develop a clear billing policy for special inspections.**
- **Nursery inspectors should keep a log to document inspections performed.**
- **Nursery inspectors should issue a prenumbered receipt whenever they collect a fee.**

12. Shipping point inspection fees are deposited in the wrong fund.

The fruit and vegetable inspection area has a cooperative agreement with the United States Department of Agriculture (USDA). The cooperative agreement requires the state to reimburse the federal agency for overhead incurred on shipping point and market inspections. The agreement states that overhead shall be based on fees collected. Department of Agriculture staff are computing overhead payments based on the department's billings rather than on its receipts. As a result, the state pays more than its share of overhead because, ultimately, some accounts are uncollectible. The state also loses interest income by paying the federal agency from existing funds rather than collected fees.

The fruit and vegetable inspection area conducts shipping point inspection transactions through the General Fund even though Minn. Stat. Section 27.07, Subd. 6 establishes a separate account to be used for USDA cooperative agreement transactions. Department of Agriculture staff said they conduct shipping point inspection transactions through the General Fund, because the department loses money on these transactions. Staff either must use the special account established for these transactions or change the law. General Fund appropriations are not to be used if dedicated receipts are appropriated to carry out the cooperative agreements.

RECOMMENDATIONS

- **Department of Agriculture staff should compute shipping point and market inspection overhead on the percentage of fees collected rather than billed.**
- **Department of Agriculture staff should apply for a credit for excess overhead paid.**
- **Department of Agriculture staff should use the account established by Minn. Stat. Section 27.07, Subd. 6 for shipping point inspection transactions.**

13. The wholesale produce dealers area did not verify workers' compensation insurance in 1988 and 1989.

Staff responsible for licensing wholesale produce dealers did not send workers' compensation verification forms to applicants in 1988 and 1989. Minn. Stat. Section 176.182 requires license applicants to provide acceptable evidence of compliance with workers' compensation insurance requirements before a license can be issued. An employee explained that in 1987 he received a memo stating that Accounting Division staff were consolidating workers' compensation questions relating to food handling and wholesale produce dealers licenses. He misinterpreted the memo to mean that he no longer had to verify workers' compensation compliance for wholesale produce dealers license applicants.

RECOMMENDATION

- **The wholesale produce dealers license area should verify licensee compliance with workers' compensation insurance requirements.**

C. CONTROLLING CONTRACTS AND EXPENDITURES

14. Controls over farm advocate contracts are weak.

Farm advocates are a group of farmers who offer free assistance to other farmers. The farm advocates are not state employees. Rather, the Department of Agriculture contracts for their services as provided for in Minn. Stat. 16B.17. Controls over farm advocate contracts are weak. Specifically:

-- Program staff do not properly monitor farm advocate contract balances. Farm advocates have incurred expenses in excess of their contract balances. For example, one advocate claimed expenses of $652.32, but only $424 remained in the contract. Many other advocates also claimed expenses in excess of the contract limit. The contracts always were amended prior to payment. Minn. Stat. Section 16A.15, Subd. 3. prohibits agencies from incurring costs until sufficient funds have been encumbered. Department staff need to monitor farm advocate contracts and inform advocates when contract balances are low.

-- Farm advocate contracts provide for the state to reimburse the advocate for "materials supplied by the contractor." Agriculture has interpreted this clause to include the costs of leasing computers and copiers. Some advocates have entered into lease agreements which provide for the entire lease payment to be made in one lump sum at the beginning of the lease term. These agreements also provide for bargain purchase options. For example, one lease agreement provided for a $2,019.75 lease payment payable upon delivery of the equipment and a bargain purchase option of one payment of $122.19 "which is payable at any time." The

Department of Agriculture reimbursed the farm advocate for the $2,019.75 "front end" lease payment. Such arrangements amount to purchases of equipment for consultants. According to a former Agriculture employee, about 13 farm advocates have exercised the bargain purchase option on state-reimbursed leases. The Department of Agriculture does not have the authority to provide equipment for consultants through this type of transaction.

-- Some farm advocate contracts include handwritten contract provisions. Both the Commissioner of Agriculture and the contractor have initialled these provisions. Other state officials who are required to sign contracts did not initial the handwritten changes. Handwritten provisions represent a weakness in controls, because there is no assurance that contracts have not been altered. To ensure that contracts have been properly reveiwed for compliance with state law, final contracts are not to include handwritten provisions.

RECOMMENDATIONS

- **Program staff should monitor farm advocate contracts balances to prevent consultants from incurring obligations before sufficient funds have been encumbered.**
- **Farm advocates should not enter into computer and copier lease agreements which require the state to pay the total lease costs at the beginning of the lease term.**
- **Department staff should consult with the Attorney General to determine the state's interest in property acquired through state-reimbursed lease agreements.**
- **Final contracts should not include handwritten provisions, but should only be changed by formal amendments which are approved by the same authorities as the original contract.**

15. <u>The Department of Agriculture needs to improve controls over purchasing</u>.

Department employees routinely claim supplies purchases on their expense reports. One employee claimed two purchases of supplies from her father. The purchases totalled $150, and were normally used by the employee in her work. Minn. Stat. Section 43A.38, Subd. 5, prohibits the "use or attempted use of the employee's official position to secure benefits, privileges, exemptions or advantages for the employee or the employee's immediate family or an organization with which the employee is associated which are different from those available to the general public." Also, the state's purchasing procedures are circumvented when expense reports are used to purchase more than nominal amounts of supplies. The reverse side of the

Employee Expense Report states that employees may claim "small" cash purchases on their expense reports.

The Department of Agriculture has not always paid vendors promptly. Five invoices tested were not paid promptly. The department paid one vendor $151.58 in finance charges because a divisional employee did not forward invoices to the accounting division promptly. Minn. Stat. Section 16A.124 and Department of Finance policy 06:05:01 require agencies to pay invoices within 30 days following the receipt of the invoice or the goods and services, whichever is later, or pay interest.

Department staff do not control purchase order issuance. Purchase orders are kept in the mailroom together with other supplies. The mailroom clerk does not have a log to record purchase orders issued or any other way to control purchase orders.

RECOMMENDATIONS

- **Department of Agriculture staff should not pay expense claims for supplies if more than nominal amounts are purchased.**

- **Department employees should not purchase supplies from family members.**

- **Department of Agriculture staff should pay invoices within 30 days following the receipt of the invoice or the goods and services, whichever is later.**

- **Purchase orders issued should be recorded in a log or controlled in some other manner.**

16. <u>The former deputy commissioner was retained to represent the department in legislative matters</u>.

The Department of Agriculture has a professional/technical services contract with former Deputy Commissioner Anne Kanten. The purpose of the contract was to allow Anne Kanten to complete projects which she began before she retired from the department in January 1989. Invoices submitted by Anne Kanten indicate that she has represented the department in legislative matters. Department of Administration Contract Management Policy and Procedure Statement ADM 188, III., states:

> Consultant or professional/technical services contracts shall not be used to . . . engage individuals or firms to represent a state agency in a legislative matter.

RECOMMENDATION

- **The Department of Agriculture should not pay consultants for representing the agency in legislative matters.**

17. <u>The Department of Agriculture maintains an outside bank account</u>.

Plant Industry Division staff maintain a bank account outside the state system. At one time, the account was used to process bond claims. We identified the bond claim process in 1986 and recommended that Agriculture staff either pay bond claims through the SWA system or request insurance companies to make checks payable to claimants. Although department staff have implemented this recommendation, they have not closed the bank account.

Currently, the account is losing money because service charges exceed interest earned. Because the department does not have the authority to maintain an account outside the state system and because the existence of such an account presents an unnecessary control risk, Plant Industry Division staff need to close the account. The account balance was $2,052 at June 30, 1989.

RECOMMENDATION

- **Department staff should close the Plant Industry Division's outside bank account and deposit the account balance in the General Fund.**

LAND OF QUALITY FOODS

90 WEST PLATO BOULEVARD
SAINT PAUL, MINNESOTA 55107

January 5, 1990

STATE OF MINNESOTA

DEPARTMENT OF AGRICULTURE

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

We have reviewed your recommendations and provide the following responses concerning your audit or the Department of Agriculture for the four years ended June 30, 1989.

1. The Family Farm Security Loan Program needs to clarify its statutory authority.

RECOMMENDATION

- The FFS should request an Attorney General's opinion on the applicability of Minn. Stat. Section 10.11 to guarantee buyouts and renegotiation of purchase prices.

RESPONSE: I have directed that Mr. Wayne Marzolf, the Manager of the FFS Program, immediately request an Attorney General's opinion for any and all areas in question. Until such time as the opinion is received, I am directing that where authority is not explicit, no further actions be taken by the FFS program regarding the selling back of a farm, guarantee buyouts, or payments to sellers. This recommendation will be implemented immediately.

2. FFS needs to provide independent verification of agreement terms.

RECOMMENDATION

- The FFS should obtain independent appraisals to verify that the terms of guarantee buyouts, renegotiations, and farm sales are in the best interests of the state. FFS should send appraisals, as well as recommendations to the Executive Council designee.

RESPONSE: I have directed that Mr. Wayne Marzolf, the Manager of the FFS Program, obtain appraisals, or in cases where it is determined that it is not practical, that the most current property tax statement be used in the evaluation process. Whenever an appraisal is not used, a report outlining the reasons for not obtaining an appraisal, a statement and explanation that the farm sale is in the best interests of the state, as well as how the determination of the property value was made must be contained in a report to the Executive Council designee and the Commissioner's Office of this agency. This recommendation will be implemented immediately.

3. Family Farm Security Loan Program accounting controls need improvement.

RECOMMENDATIONS

- The FFS staff should establish procedures to ensure that all participant documentation is complete and accurate.

RESPONSE: The FFS staff will establish procedures and complete a full review of all documentation by June 30, 1990. This recommendation has been assigned to Mr. Wayne Marzolf, the Manager of the FFS Program.

- The Accounting Division should do a formal monthly reconciliation of the loan receivable balances.

RESPONSE: The Accounting Division Manager, Mr. Joseph Komro, will verify by January 31, 1990, that the balances shown by the Department of Finance are in accordance with the payments, repayments, or reduction in payment adjustment loans made or released in accordance with the FFS Program.

The FFS Program Manager, Mr. Wayne Marzolf, will have in place by June 30, 1990, a formal monthly reconciliation system such that it will be able to reconcile the outstanding four percent interest adjustment and special payment assistance loans receivable.

4. Special payment assistance loan repayment procedures need to be improved.

RECOMMENDATIONS

- The FFS should send advance billings for special payment assistance loan repayments.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Wayne Marzolf, the Manager of the FFS Program, with a required implementation date of June 30, 1990.

- The FFS should follow up missed or late payments promptly.

RESPONSE: The agency agrees with this recommendation and has assigned it to Mr. Wayne Marzolf of FFS with a required implementation date of June 30, 1990. I am further directing that FFS ensure that all loan agreement terms are complied with and paid on time.

5. The FFS does not require proof of insurance for all participants that have insurable buildings.

RECOMMENDATION

- The FFS should request proof of fire and wind insurance in all cases where the state is acting as guarantor of the loan. The proof of insurance should be maintained on file by the FFS.

RESPONSE: Approximately 50% of all farms on the program have buildings on them where this recommendation might be considered. On those that have buildings, the loan holder would be requiring such insurance to protect the loan. Since this is a guarantee program, we will include this in a written requirement if another loan guarantee is ever granted. However, one has not been approved by the department since January of 1986. This recommendation has been assigned to Mr. Wayne Marzolf, the Manager of the FFS Program.

6. **Procedures for handling rental property need to be improved.**

RECOMMENDATIONS

° The FFS should more consistently and vigorously follow up late rental payments.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Wayne Mazolf of FFS with a required implementation date of June 30, 1990.

° All property that is rented should have a current lease contract on file. The state should not continue to rent property without a binding contract with the renter.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Wayne Marzolf of FFS with a required implementation date of June 30, 1990.

7. **The Minneapolis Grain Division has billed inaccurately for grain inspections.**

RECOMMENDATIONS

° Minneapolis Grain staff should promptly notify the St. Paul Accounting Division of billing errors so that voided invoices can be removed from the open invoice files.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Edward Moline, the Manager of the Grain Inspection Division, with a required implementation date of June 30, 1990.

° Minneapolis Grain staff should revise billing procedures to ensure that billings are accurate and all services are paid.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Edward Moline, the Manager of the Grain Inspection Division, with a required implementation date of June 30, 1990.

8. **The Minneapolis Grain Division needs to strengthen controls over warehouse receipts.**

RECOMMENDATIONS

° Grain warehouse receipts duties should be adequately separated.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Edward Moline, the Manager of the Grain Inspection Division, with a required implementation date of June 30, 1990.

- Grain warehouse staff should reconcile receipts to statewide accounting records.

RESPONSE: The agency agrees with this recommendation, and has assigned it to Mr. Edward Moline, the Manager of the Grain Inspection Division, with a required implementation date of June 30, 1990.

9. The Department of Agriculture needs to strengthen controls over receipts processed through its St. Paul office.

RECOMMENDATIONS

- All mail receipts should be totalled and taken directly to the cashier for deposit without routing to processing divisions.

RESPONSE: Procedures are being revised so that all mail receipts will be totalled and taken directly to the agency cashier for deposit. This recommendation has been assigned to Mr. Harold Frank, the Manager of our Personnel and Office Management Division, with a required implementation date of February 15, 1990.

- Department of Agriculture staff should deposit receipts promptly according to the requirements of Minn. Stat. Section 16A.275.

RESPONSE: This is the requirement of this agency, except during peak renewal periods where the cost of depositing every check within one working day would exceed any lost interest costs. This agency will request an exception to this as authorized by Subdivision 2 of the above state statute, so that it will promptly deposit all receipts, but not all checks within one working day. This recommendation has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro, and will be implemented immediately.

- Department of Agriculture staff should code deposits to the proper fiscal year.

RESPONSE: This recommendation has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro, and will be implemented immediately.

- Department of Agriculture staff should document "return" items.

RESPONSE: There are various reasons for "return" items, and in all instances a copy of the letter and supporting documentation was kept on file until the correct funds were received. The letter or documentation was then discarded after the correct check was received. Procedures have been implemented to keep a permanent record of all returned items with detailed explanations until audited or for three years whichever comes first. The leadworker of the Licensing Section has been assigned to review and approve all returned items. Implementation of written procedures has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro, with the procedures rewritten and implemented by April 1, 1990.

10. Internal controls over fiscal year 1989 haylifts were weak.

RECOMMENDATIONS

- The department should document the reasons that $30,000 worth of hay was not billed to farmers and request payment for all unpaid accounts.

RESPONSE: It is impossible for the agency to document and request payment when the hay was not of sufficient quality that it would demand a price in the marketplace. A fair amount of latitude was given state representatives when an unusual situation such as this developed. Since no names were recorded, this further makes the implementation of this recommendation impossible. This recommendation I have assigned to myself and it cannot be implemented. However, for any future haylifts, we will ask for the assistance of the Legislative Auditor to ensure these areas of concern are fully covered.

- The department should continue collection efforts until debts are eligible to be written off.

RESPONSE: The department will continue collection efforts and this recommendation has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro.

- In future emergency purchase situations, the department should document agreements with purchase orders or other documentation.

RESPONSE: This recommendation relates to hiring loaders to load hay onto vehicles and to the hiring of truckers to deliver or pick up hay. In any future emergency situations, the agency will document these agreements or services. This recommendation has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro.

- Hay receipts deposited to the department's accounts in the year ended June 30, 1990, should be transferred to the General Fund as nondedicated receipts.

RESPONSE: This recommendation was implemented immediately and was assigned to the Manager of the Accounting Division, Mr. Joseph Komro.

11. The Nursery Inspection Division does not have a clear billing policy for special inspections.

RECOMMENDATIONS

- The Department of Agriculture should develop a clear billing policy for special inspections.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented.

- Nursery inspectors should keep a log to document inspections performed.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented.

- Nursery inspectors should issue a prenumbered receipt whenever they collect a fee.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented.

12. Shipping point inspection fees are deposited in the wrong fund.

RECOMMENDATIONS

- Department of Agriculture staff should compute shipping point and market inspection overhead on the percentage of fees collected rather than billed.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented.

- Department of Agriculture staff should apply for a credit for excess overhead paid.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division and has been implemented.

- Department of Agriculture staff should use the account established by Minn. Stat. Section 27.07, Subd. 6 for shipping point inspection transactions.

RESPONSE: The agency is currently reviewing this recommendation with the Department of Finance which is not in agreement with the movement of this activity from the general fund to the special fund. We will work with the Department of Finance to resolve these problems by June 30, 1990, and this recommendation has been assigned to the Manager of the Accounting Division, Mr. Joseph Komro.

13. The wholesale produce dealers area did not verify workers' compensation insurance in 1988 and 1989.

RECOMMENDATION

- The wholesale produce dealers license area should verify licensee compliance with workers' compensation insurance requirements.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented.

14. Controls over farm advocate contracts are weak.

RECOMMENDATIONS

- Program staff should monitor farm advocate contract balances to prevent consultants from incurring obligations before sufficient funds have been encumbered.

RESPONSE: This recommendation was assigned to Ms. Patricia Schuna of the Farm Advocates Section, and has been implemented.

- Farm advocates should not enter into computer and copier lease agreements which require the state to pay the total lease costs at the beginning of the lease term.

RESPONSE: This recommendation was assigned to Ms. Patricia Schuna of the Farm Advocates Section, and has been implemented.

- Department staff should consult with the Attorney General to determine the state's interest in property acquired through state-reimbursed lease agreements.

RESPONSE: This recommendation has been assigned to Deputy Commissioner Ms. Patricia Jensen for implementation.

- Final contracts should not include handwritten provisions, but should only be changed by formal amendments which are approved by the same authorities as the original contract.

RESPONSE: This recommendation was assigned to Ms. Patricia Schuna of the Farm Advocates Section, and has been implemented.

15. The Department of Agriculture needs to improve controls over purchasing.

RECOMMENDATIONS

- Department of Agriculture staff should not pay expense claims for supplies if more than nominal amounts are purchased.

RESPONSE: This recommendation was assigned to Mr. Joseph Komro, the Manager of the Accounting Division, and has been implemented.

- Department Employees should not purchase supplies from family members.

RESPONSE: This recommendation was assigned to Mr. Joseph Komro, the Manager of the Acccounting Division.

- Department of Agriculture staff should pay invoices within 30 days following the receipt of the invoice or the goods and services, whichever is later.

RESPONSE: This recommendation was assigned to Mr. Joseph Komro, the Manager of the Accounting Division and has been implemented.

- Purchase orders issued should be recorded in a log or controlled in some other manner.

RESPONSE: This recommendation has been assigned to Mr. Harold Frank, the Manager of our Personnel and Office Management Division, with a required implementation date of February 15, 1990.

16. The former deputy commissioner was retained to represent the department in legislative matters.

RECOMMENDATION

- The Department of Agriculture should not pay consultants for representing the agency in legislative matters.

RESPONSE: This agency did not retain the former Deputy Commissioner to represent the department in legislative matters, and this recommendation has been assigned to Deputy Commissioner Ms. Patricia Jensen for implementation.

17. The Department of Agriculture maintains an outside bank account.

RECOMMENDATION

- Department staff should close the Plant Industry Division's outside bank account and deposit the account balance in the General Fund.

RESPONSE: This recommendation was assigned to Mr. Arthur Mason, the Manager of the Plant Industry Division, and has been implemented with the account closed and the balance deposited in the General Fund.

We appreciate the opportunity to respond to these recommendations.

Sincerely,

MINNESOTA DEPARTMENT OF AGRICULTURE

Jim Nichols

Jim Nichols
Commissioner