

Department of Agriculture

Financial Audit

For the Three Years Ended June 30, 1994

October 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-43



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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission


Mr. Gene Hugoson, Commissioner
Department of Agriculture


We have audited the Department of Agriculture for the period July 1, 1991 through June 30, 1994. We emphasize that this has not been a complete audit of all programs within the Department of Agriculture, and that our audit scope was limited to appropriations and the cost allocation system. The summary on the next page highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards also require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Agriculture complied with provisions of laws, regulations, contracts and grants that are significant to the audit. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Agriculture. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 13, 1995.

We thank the Department of Agriculture staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 15, 1995

Report Signed On: October 9, 1995

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Department of Agriculture

Financial Audit

For the Three Years Ended June 30, 1994

Public Release Date: October 13, 1995

No. 95-43

Agency Background

The Department of Agriculture is primarily a regulatory agency. The department operates under Minn. Stat. Chapters 17-34 and 40-42, 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's commissioner is appointed by the Governor. Elton R. Redalen served as commissioner from January 10, 1991 to June 30, 1995. The department currently is headed by Gene Hugoson, appointed July 1, 1995.

Activities of the department are financed mainly by appropriations from the General Fund and departmental revenue consisting primarily of license, registration, and service fees.

Selected Audit Areas and Conclusions

Our audit scope included a review of appropriations and cost allocation system for the period from July 1, 1991 through June 30, 1994. We found three problems with the department's appropriation controls: improperly funding the construction of the Seed Potato Inspection Facility, overspending its appropriation by the Grain Division, and not transferring matching federal grant amounts to reimburse state accounts.

The lack of an adequate payroll cost allocation system and the inefficient use of cost accounting systems also created problems for the department in controlling its appropriations and grants.

Contact the Financial Audit Division for additional information.

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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
Charlie Gill	Auditor-In-Charge
Steve Johnson	Staff Auditor
Dale Ogren	Staff Auditor
Carl Otto, CPA	Staff Auditor

Exit Conference

The findings and recommendations in this report and an additional matter involving the internal control structure were discussed with the following staff of the Department of Agriculture on August 16, 1995:

Gene Hugoson	Commissioner
William L. Oemichen	Deputy Commissioner
Sharon Clark	Assistant Commissioner
Gregory Buzicky	Director, Agronomy Services Division
Thomas McConnell	Assistant Director, Agronomy Services Division
Gary Braun	Manager, Agronomy Services Division
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Barbara Kryzer	Accounting Coordinator, Financial Administration Division
Charles Hansen	Accounting Coordinator, Financial Administration Division
Fred Grimm	Director, Management Analysis Division, Department of Administration

Chapter 1. Introduction

The Department of Agriculture is primarily a regulatory agency. The department operates under Minn. Stat. Chapters 17-34 and 40-42, 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's commissioner is appointed by the Governor. Elton R. Redalen served as commissioner from January 10, 1991 to June 30, 1995. The department currently is headed by Gene Hugoson, appointed July 1, 1995.

Activities of the department are financed mainly by appropriations from the General Fund and departmental revenue consisting primarily of license, registration, and service fees. We discuss appropriation control in Chapter 2. The system used to allocate department costs to programs is discussed in Chapter 3. Table 1-1 includes financial activity from July 1, 1991, through June 30, 1994, for the department.

Table 1-1
Summary of Financial Activity
Fiscal Years 1992-1994

	Year Ended June 30		
	1992	1993	1994
Sources:			
Appropriations-			
General Fund	\$12,666,000	\$12,806,000	\$13,936,000
Environmental Fund	130,000	130,000	272,000
Minnesota Resources Fund			3,569,000
Revenue (Note 1)-			
Service Charges, Inspection Fees,			
Permits and Licenses,			
Surcharges	16,097,313	17,812,067	17,082,295
Loan Principal and Interest	1,827,629	3,261,999	4,203,597
Federal Grants	2,222,251	1,535,580	1,196,555
General Obligation Bonds	359,675	2,241,918	4,898,407
All Other	3,204,692	5,301,111	5,934,462
Total Sources	<u>\$36,507,560</u>	<u>\$43,088,675</u>	<u>\$51,092,316</u>
Expenditures:			
Payroll	\$18,250,636	\$18,675,697	\$18,948,262
Grants	1,071,375	4,314,210	8,249,005
Loans	2,056,300	2,936,421	6,753,566
Consultant, Professional/Technical			
Services, Purchased Services	1,683,740	2,277,224	2,413,873
Rent	1,725,632	1,727,125	1,705,340
Travel	1,106,140	1,107,162	1,028,556
Other Administrative Expenses	3,321,934	4,392,195	4,372,434
Total Expenditures	<u>\$29,215,757</u>	<u>\$35,430,034</u>	<u>\$43,471,036</u>

Note 1 Only some of the revenues are dedicated and available to the department.

Source: Statewide Accounting System Estimated Actual Receipts Reports and Manager's Financial Reports as of September 5, 1992; September 4, 1993; and September 4, 1994.

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Chapter 2. Appropriation Control

Chapter Conclusions

We found some areas in which the Department of Agriculture had not complied with the appropriation laws covering fiscal years 1992 through 1994. These areas involved problems with building a Seed Potato Inspection Facility, the Grain Division's overspending its appropriation, and not transferring federal grant amounts to reimburse state accounts.

Background

Appropriations were authorized in three main areas, which are: Protection Services, Promotion and Marketing, and Administration and Fiscal Services. Within these areas the agency was authorized to use appropriations from the General Fund, Special Revenue Fund, and the Environmental Fund. Under the Special Revenue Fund the agency collected numerous fees which are directly appropriated to it as dedicated revenue.

The Department of Agriculture funds its operations mainly with General Fund appropriations and dedicated receipts. Significant money also is appropriated from the Minnesota Resources Fund for specific purposes. Any movement of money between appropriations requires legislative approval. Figure 2.1 shows the department's direct appropriations by fund for the three fiscal years ended June 30, 1994. The large increase in the Special Revenue Fund appropriation is due to Laws of 1993, Chapter 172, which amended several sections of the Agriculture chapters in Minn. Stat. 1992, and removed the automatic spending authority for the Department of Agriculture's dedicated revenue accounts. This made these accounts subject to legislative appropriations. Section 7 of the law also appropriated \$9,461,000 for the Special Revenue Fund programs for fiscal year 1994. Figure 2.2 shows fiscal year 1994 direct appropriations by fund and service area.

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Figure 2-1
Direct Appropriation Funding Sources
Fiscal Years 1992-1994
(\$ In Millions)

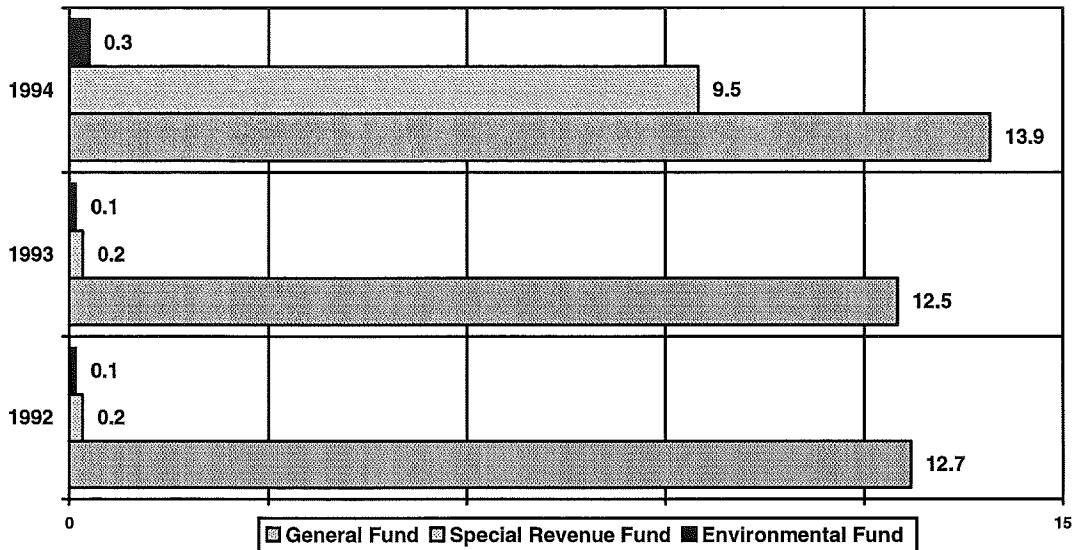
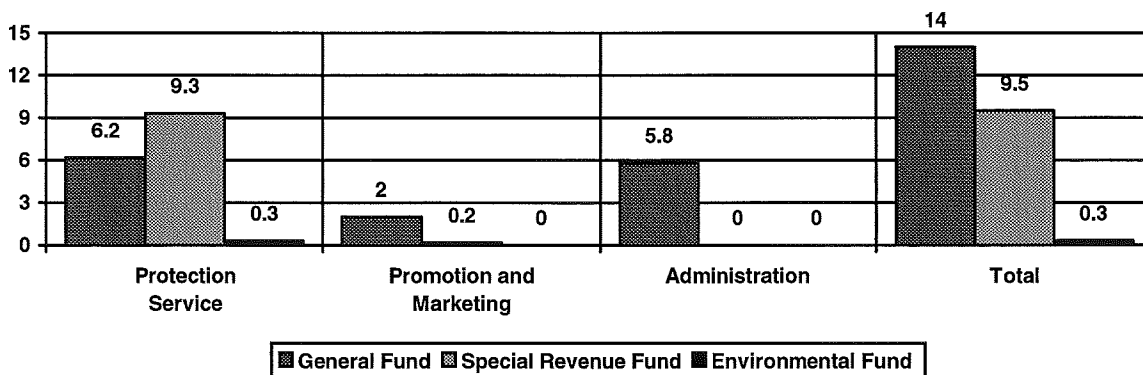


Figure 2-2
Direct Appropriation Summary by Fund and Service Area
Fiscal Year 1994
(\$ In Millions)



Sources: State appropriation laws.
 Statewide accounting transaction files.

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The department appropriations and dedicated revenue are used for a wide range of agriculture related programs. Some of these programs include agronomy services, plant protection services, grain inspection, food inspection, dairy and livestock services, family farm services, rural finance authority, and the development, promotion and marketing of ethanol. Table 2-1 shows the complexity of the appropriation account structure for the department.

Table 2-1
Fiscal Year 1994
Appropriation Accounts by Fund

<u>Fund</u>	<u>Number of Accounts</u>	<u>Expenditures</u>
General	19	\$16,744,473
Special Revenue	37	14,587,133
Rural Finance Administration	6	6,205,730
Agency	4	2,804,079
Federal	21	1,404,180
Minnesota Resources	9	685,710
State Government Special Revenue	2	555,206
Environmental	2	319,417
Gift	4	90,108
Minnesota Environmental and Natural Resources Trust	1	75,000
Total	<u>105</u>	<u>\$43,471,036</u>

Source: Statewide Accounting System Manager's Financial Report as of September 4, 1994.

The department follows required state guidelines in preparing its biennial budget requests. The legislature defines in appropriation laws specific guidelines for some expenditures. With the help of the Department of Finance, the department sets up its program structures on the statewide accounting system. The department accounting section holds monthly budget review meetings with the other divisions. Any budget concerns are discussed at these meetings. These meetings are especially necessary because of the dedicated revenue funding for many programs.

Objectives

We focused our review of appropriations on five objectives:

- Did the department properly record appropriations on the statewide accounting system?
- Were appropriation transfers made in accordance with the appropriation laws and properly authorized?
- Were receipts properly recorded to the correct account as dedicated revenue?
- Are statewide indirect costs charged and reimbursed to the appropriate accounts?
- Are matching federal grant funds transferred to reimburse state accounts?

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Methodology

The methodology used to evaluate the audit objectives for appropriations included a review of the internal control structure over appropriations and receipts. We traced the appropriations from the laws to the statewide accounting system. We tested appropriation transfers between accounts for legality and proper authorization. We sampled receipts and receipt corrections for proper recording on the statewide accounting system.

Conclusions

We found some areas in which the Department of Agriculture had not complied with the appropriation laws covering fiscal years 1992 through 1994. These areas involved funding the construction of the Seed Potato Inspection Facility, overspending of its appropriation by the Grain Division (See Finding 1), and not transferring federal grant amounts to reimburse state accounts. (See Finding 2). We found that statewide indirect costs were charged and collected for the appropriate accounts, but as cited in Finding 1, the department had been undercharging departmental indirect costs on its special revenue accounts.

Seed Potato Inspection Facility

In building a new seed potato inspection facility in East Grand Forks, the cost of the building exceeded the original appropriation and the Department of Agriculture had to obtain a deficiency appropriation from the Legislature. Various methods to correct the problem were tried, but the legality of these methods has not yet been resolved.

As of June 30, 1995, \$442,812 had been paid for construction of the seed potato inspection facility. Of this amount, \$365,000 was financed from an appropriation made to the Department of Administration from state bond proceeds. The legality of using additional funding sources to supplement this appropriation is in question. Minn. Stat. Section 16B.31 stipulates, in part:

No plan may be adopted, and no improvement made or building constructed, that contemplates the expenditure for its completion of more money than the appropriation for it, unless otherwise provided in this section or the act making the appropriation.

On March 17, 1995, the Department of Agriculture requested an Attorney General's opinion concerning the legal issues raised on the funding of the seed potato inspection facility. The opinion is pending.

In July 1989, the department began seriously considering the construction of a new facility to house its seed potato certification and potato grade inspection programs. The initial cost estimate for the 1990 Capital Budget listed the completed project at \$587,500. During December 1990, a cost estimate for a reduced scope project was set at approximately \$350,000.

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During the next year and a half, estimates of construction costs ranged between \$372,500 and \$364,000. Laws of 1992, Chapter 558, Section 20 appropriated \$365,000 of bond money for the project. Between May 1992 and the Fall of 1993, the department corresponded with the Department of Administration about its proposed specifications for the building and the related costs. This correspondence indicated that the department anticipated the facility to cost more than the \$365,000 appropriated and that it intended to provide supplemental funds from its seed potato certification and inspection account. The project was bid during June of 1994 for \$432,000. Prior to the bid, the department had incurred about \$55,000 in other costs associated with the purchase of the land and planning the facility.

In July 1994, the department encumbered \$122,000 from the seed potato certification and inspection account to supplement the \$365,000 of bond money to finish the building. The Department of Finance advised the department that due to a law change spending from the seed potato certification and inspection account was limited to \$400,000 appropriated for fiscal year 1995. Laws of 1993, Chapter 172, Section 25 amended Minn. Stat. 1992, Section 21.115 and removed the automatic spending authority of seed potato revenue. The department was unaware of that law change and mistakenly believed that it had the authority to use the funds in the account. As a result, it reversed the \$122,000 encumbrance transaction. The department then encumbered the \$122,000 from the General Fund plant protection account, which is a discretionary account for its use.

Laws of 1995, Chapter 220, Article 1, Section 7, Subd. 2, appropriated \$122,000 from the seed potato inspection account to reimburse the department's General Fund appropriation for costs incurred in building the seed potato facility. Laws of 1995, First Special Session, Chapter 2, Article 1, Section 3 appropriated an additional \$103,000 of bond proceeds for the department to furnish and equip the seed potato inspection facility.

1. The Grain Division has overspent its appropriation.

The Grain Division has been spending in excess of its funding sources. Laws of Minn. 1994, Chapter 642, Section 34 provided the grain inspection and weighing account with a deficit appropriation of \$200,000 for fiscal year 1994 operations. Laws of Minn. 1995, Chapter 220, Section 7, Subd. 4 provided a loan of \$800,000 from the General Fund to the grain inspection and weighing account. The loan must be repaid by June 30, 1997.

Grain inspections are market driven. According to department officials, the demand for inspections is down, as a national trend is not to use grain inspections. Only ten percent of the inspections done by the Department of Agriculture are mandatory, those that deal with international markets. Ninety percent of the inspections are domestic and elective. There is a trend toward fewer and larger grain companies, and they usually do their own inspections.

If the current trend continues, it does not appear that the Grain Division will be in a position to repay the \$800,000 loan. Laws of Minnesota 1995, Chapter 220, Section 7, requires the commissioner to repay the loan from the grain inspection account created by Minn. Stat. Section 17B.15, Subd. 1. Table 2-2 shows the sources and uses of funds for the Grain Inspection Account for the last four years.

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Table 2-2
Summary of Financial Activity For the Grain Inspection Account

	Fiscal Year			
	1992	1993	1994	1995
Sources:				
Balance forward in	\$1,510,654	\$1,189,154	\$ 324,153	\$ 2,134
Revenue	4,111,469	3,412,516	3,458,861	3,003,701
Deficit Appropriation			200,000	
Loan				800,000
Supplement from General Fund (Note 1)				825,904
Total available	<u>\$5,622,123</u>	<u>\$4,601,670</u>	<u>\$3,983,014</u>	<u>\$4,631,739</u>
Uses:				
Payroll	\$3,686,719	\$3,515,072	\$3,251,672	\$3,035,211
Agency Indirect costs	102,500	102,500	59,000	450,306
Statewide Indirect costs	29,430	25,544	19,996	20,750
Other Expenditures	<u>614,320</u>	<u>634,401</u>	<u>650,212</u>	<u>510,403</u>
Total Expenditures	<u>\$4,432,969</u>	<u>\$4,277,517</u>	<u>\$3,980,880</u>	<u>\$4,017,170</u>
Ending Account Balance	<u>\$1,189,154</u>	<u>\$ 324,153</u>	<u>\$ 2,134</u>	<u>\$ 614,569</u>

Note 1. The supplemental General Fund expenditures were from the Protection Services account and the Administrative Support and Grants account.

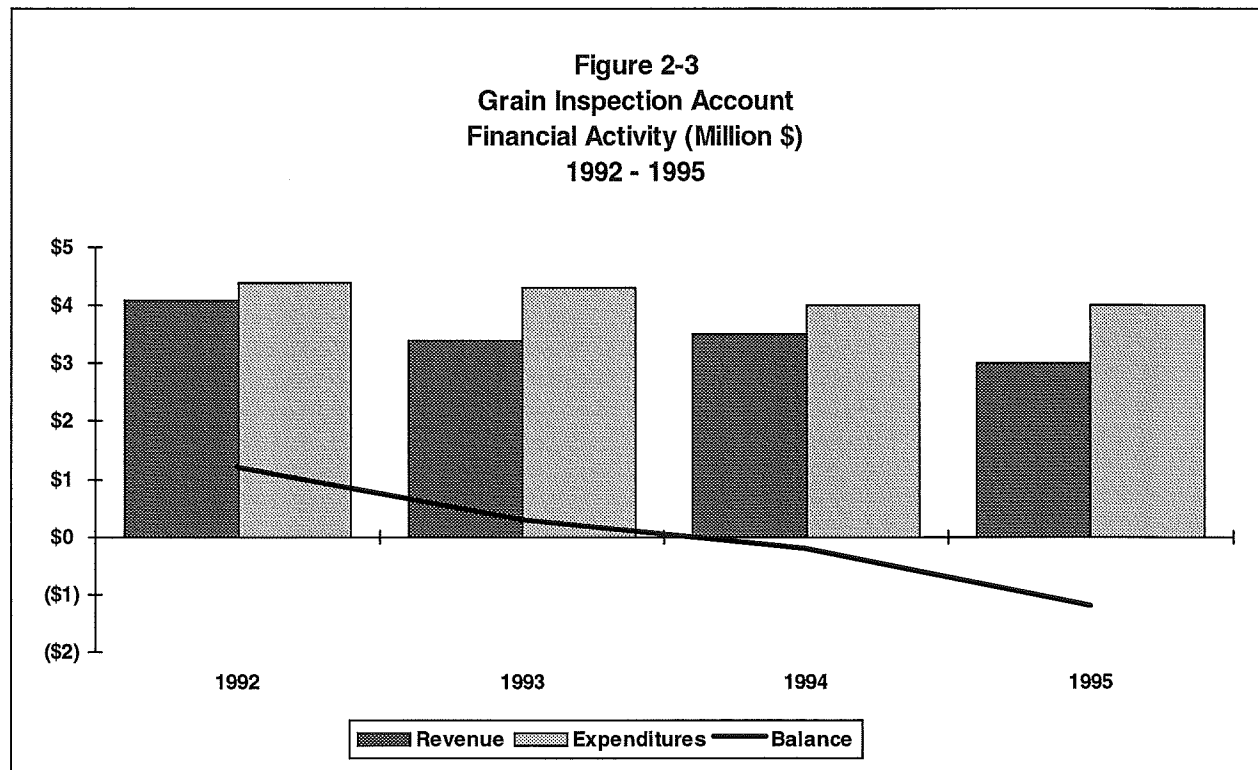
Source: Statewide Accounting System Appropriation Balance within Fund Reports and Manager's Financial Reports as of September 5, 1992; September 4, 1993; September 4, 1994; and August 31, 1995.

The Grain Division's financial problems worsened in 1995, because it was required to pay the full share of agency indirect costs. There are two types of indirect costs: statewide and agency. The Department of Finance controls statewide indirect costs assessments. For several years, the Department of Agriculture was left to calculate its own agency indirect costs. For fiscal years 1992 to 1994, Agriculture had allocated a fixed base of \$263,000 in agency indirect costs among its special revenue accounts. The Grain Inspection Division's share of that allocation was \$102,500 for fiscal years 1992 and 1993, but dropped to \$59,000 in fiscal year 1994. At the direction of the Department of Finance, Agriculture completed a comprehensive analysis of its agency indirect cost calculations in fiscal year 1995. As a result, the department's base for allocating agency indirect costs to special revenue accounts increased to over \$1.3 million. The Grain Inspection share of agency indirect costs was assessed at \$450,000.

Because the Grain Inspection Account was already experiencing significant financial problems, it could not afford to pay its full share of agency indirect costs. As a result, as shown in Table 2-2, Agriculture supplemented the Grain Inspection Account by paying several of its expenditures, including a significant portion of agency indirect costs, from the General Fund appropriation.

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Figure 2-3 compares revenues to expenditures and shows the decline in account balance. The financial decline became evident during fiscal years 1992 to 1995.



Source: Statewide Accounting System Appropriation Balance within Fund Reports and Manager's Financial Reports as of September 5, 1992; September 4, 1993; September 4, 1994; and August 31, 1995.

The department has initiated a management study, by the Department of Administration Management Analysis Division, to determine the viability of the Grain Division. The Grain Division needs to make the appropriate changes to operate within the limits of its appropriations.

Recommendations

- *The Department of Agriculture should continue to resolve the problems with the Grain Division expenditures and appropriations.*
- *The Department of Agriculture should reevaluate whether or not the agency should continue the grain inspection program.*

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2. Some matching federal grant amounts have not been transferred to reimburse state accounts.

Reimbursements from federal accounts have not always been transferred to the appropriate state accounts. Our analysis in Table 2-3 shows that \$1,382,286 had accumulated in various federal accounts at the beginning of fiscal year 1995 and should have been transferred to appropriate state accounts. Beyond the amounts shown in Table 2-3, the department had earned other federal reimbursements that had not yet been recovered as of June 30, 1994. These federal accounts should operate with a zero balance after accounting for in-transit items.

Table 2-3
Federal Account Balances
Carried Forward To Fiscal Year 1995

State marketing improvement	\$ 97,295
Egg and egg products	34,185
Mandatory egg products	51,490
Plant pest detection	3,496
Pesticide enforcement (note 1)	482,472
Food inspection	38,975
Medicated feed inspection	26,545
Direct marketing study	21,396
Pesticide applicators	101,953
Organic food production	11,119
Egg and poultry laboratory analysis	139,981
Mental health disaster assistance	23,134
Plant pest survey	6,000
Meat and poultry inspection	25,811
Commodity loans and purchases	102,583
Fish and fish product inspection	183,473
Water pollution control	13,464
Clean water	18,914
Total	<u>\$1,382,286</u>

Note 1: In addition to this carryforward, another \$386,716 in reimbursements for fiscal year 1994 was deposited on July 5, 1994.

Source: Statewide Accounting System Appropriation Balance within Fund Report as of June 30, 1995.

The balances accumulate because the department charges most of the expenditures to the various state accounts and does not reimburse them when the federal money is received. The department has not sought authority to charge these expenditures directly to the federal accounts in anticipation of federal reimbursements. Instead, it has chosen to charge state accounts for a significant part of the federal share of expenditures.

For example, we analyzed the matching payments made from the federal pesticide enforcement account for fiscal year 1994. The Federal Fund is not being charged its full share of applicable program costs. The effect is that the Federal Fund is accumulating amounts that should be reimbursed to the General and Special Revenue Funds. As of June 30, 1994, we estimate that the federal pesticide enforcement account owed over \$800,000 to Special Revenue Fund and General Fund accounts. Table 2-3 shows that \$482,472 was carried forward in this federal account from

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fiscal year 1994 to 1995. Another \$386,716 in federal reimbursements had been earned as of the end of fiscal year 1994, but were deposited directly into the fiscal year 1995 account on July 5, 1994.

Because these federal reimbursements have accumulated for several years, it is difficult to determine the proper allocation back to the Special Revenue and General Funds. We analyzed fiscal year 1994 activity in the federal pesticide enforcement account and calculated that accumulated funds had increased by \$127,000 during the year. Of this amount, we calculate \$85,000 that must be reimbursed to the Special Revenue Fund and \$42,000 that must be canceled to the General Fund. A similar analysis will have to be prepared for other fiscal years in order to determine the proper reallocation of funds.

Recommendations

- *The Department of Agriculture should analyze the previous years' account balances in the Federal Fund and transfer the appropriate amounts to accounts in the General and Special Revenue Funds.*
- *The Department of Agriculture should revise its practice of accumulating money in the federal accounts after it is earned.*

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Chapter 3. Cost Allocation System

Chapter Conclusions

The Department of Agriculture does not have an adequate cost allocation system to charge the appropriate accounts for the Agronomy Services Division payroll services. The actual hours recorded on the employee time reports differ from the amounts charged on the statewide accounting (SWA) system. The cost accounting systems the department currently uses lead to an inefficient use of department resources.

Background

The Department of Agriculture has approximately 500 employees and uses the Statewide Accounting (SWA) system to allot salaries to the various dedicated accounts. The Agronomy Services Division is the largest Department of Agriculture division with approximately 90 employees. The division employees charge their time worked to 40 possible funding sources. Many of their positions are funded from more than one dedicated account and their employees may work on several state and federal programs. Most of the other department employees are funded from one funding source.

Objectives

We focused our review on the following objectives:

- Does the Agronomy Services Division have an adequate payroll cost allocation system?
- Are Department of Agriculture expense transfers properly authorized and supported?

Methodology

The methodology used to evaluate the audit objectives included sampling and analytical reviews. We reviewed employee time sheets to ensure that the time was charged to the appropriate accounts. We reviewed expenditure and payroll expense transfers to ensure that the appropriate accounts were charged. We reviewed the allocation and payment of indirect costs to ensure that they were charged and paid to the appropriate accounts.

We also reviewed the cost allocation and reimbursement transfers for federal programs. The cost allocation for the federal programs is a manual accumulation of federal hours worked. It is obtained directly from the employees' time reports.

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Conclusions

We conclude that the Department of Agriculture does not have an adequate payroll cost allocation system to charge the appropriate accounts for the Agronomy Services Division payroll services (See Finding 3). The department was not able to show us that adjustments were made to the SWA system to reflect the actual hours worked. Therefore, we cannot be sure that appropriations for a specific purpose, had salaries for the same purpose charged to them.

We conclude that qualifying work was correctly charged to the federal programs on the manual system. We conclude that expense transfers were properly authorized and supported.

3. Payroll charges for the Agronomy Division's nonfederal dedicated accounts are inconsistent with information recorded on employee time reports.

The Agronomy Services Division allocates payroll charges based on estimates rather than actual documentation. It adjusts payroll charges to federal accounts based on employee time records. It does not, however, adjust payroll for other dedicated accounts. The hours recorded on the employee time reports differ from the accounts charged on the statewide accounting (SWA) system.

We reviewed payroll data for all 92 employees of the Agronomy Services Division for fiscal year 1994. We compared hours charged on the employee time sheets to the hours and amounts charged on the SWA system. The time sheet hours were converted to dollars for the comparison. Forty-three employees had a discrepancy between hours charged on their time reports and the actual charges made on the SWA system.

As an example, one employee's fiscal year 1994 salary of \$28,571 was funded entirely from the feed inspection account (Special Revenue Fund) on the SWA system. According to the employee's time reports, however, only \$5,503 should have been charged to the feed inspection account. The employee's time sheets indicate that other parts of the remaining salary should have been charged as follows: \$4,868 to the seed inspection account (Special Revenue Fund), \$1,324 to the noxious weeds account (General Fund), and \$10,955 to the pesticide account (Federal Fund). We could not identify the proper account for a \$5,921 charge.

Being unable to identify the proper account to charge for \$5,921 of the employee's salary illustrates a potential problem about the accuracy of time reports. If time reports are to be used as source documentation to charge time to programs in a cost accounting system, employees must complete each time report carefully. The department also needs to initiate supervising review procedures to verify accuracy of time charges. Training sessions may be needed to stress to employees the importance of correct time charges, especially as the department begins to utilize the new Minnesota Accounting and Procurement System. The department also expressed concern about the accuracy of time reports.

We also analyzed the net effect on certain programs and found discrepancies. For example, the pesticide regulatory account was charged \$225,902 more than the amount supported by employee time reports. Most of the hours for this program are budgeted to the Special Revenue Fund account on the SWA system. A summary of all charges for the state and federal pesticide

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accounts disclosed that \$1,640,609 was charged on the time reports, and \$1,866,511 was charged on the SWA system. The \$225,902 difference is the amount that the pesticide accounts funded work on other programs.

Data from time reports is not compiled timely enough to provide effective cost accounting. Currently, the Agronomy Services Division tries to monitor actual payroll expenses by accumulating actual hours on a database. We found that this database was not timely. The fiscal year 1994 database was not complete until the end of fiscal year 1995. The individual doing the data entry was no longer employed by the department and the data entry responsibility was assumed by another individual on an exception basis. The information accumulated on the database was not used to adjust SWA records to reflect the actual hours worked.

The SWA system is supposed to record spending to conform to the legal provisions of each program. The desired outcome is that only expenditures that are legally able to be charged to specific appropriations are done so. An adequate cost allocation system would capture the funding source when the transaction is initiated and provide assurance that appropriations are spent for their intended purpose.

Recommendation

- *The Department of Agriculture should develop a payroll cost accounting system which reflects the actual employee charges to the specific programs, once every payperiod, or utilize the new Minnesota Accounting and Procurement System.*
- *The department should review time reports to be sure employee time is accurately charged to the proper programs on the SWA system.*

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Minnesota Department of Agriculture

September 29, 1995

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

This is my first opportunity as Commissioner to participate in the findings of a legislative audit which covers the three year period which ended June 30, 1994. I want to assure you that even though the audit period covers a time frame prior to my becoming Commissioner, my staff and I take this process seriously and appreciate the auditing assistance your office provides to the Department of Agriculture.

We have reviewed your recommendations and provide the following responses concerning your audit of the Department of Agriculture for the three years ended June 30, 1994.

1. The Grain Division has overspent its appropriation.

Recommendations

- *The Department of Agriculture should continue to resolve the problems with the Grain Division expenditures and appropriations.*

Department Response: The Department of Agriculture retained the services of the Department of Administration's Management Analysis Division ("MAD") this past spring to analyze the problems presented by the imbalance of the Grain Division's revenues and expenditures. Yesterday, we received MAD's Policy and Operations Review study and we have just begun the process of carefully evaluating the recommendations and options presented by MAD to resolve the budgeting problems in the Grain Division.

- *The Department of Agriculture should reevaluate whether or not the agency should continue the grain inspection program.*

Department Response: As indicated above, the Department of Agriculture will evaluate the continuance of the Grain Inspection Division and its programs based upon the recommendations and options presented by the MAD management study, the division's projected financial position, and the interest expressed by the agricultural industry in continued or reduced levels of service. This evaluation should be completed and fully implemented by June 30, 1996.

2. **Some matching federal grant amounts have not been transferred to reimburse state accounts.**

Recommendations

- *The Department of Agriculture should analyze the previous years' account balances in the Federal Fund and transfer the appropriate amounts to accounts in the General and Special Funds.*

Department Response: We will analyze and work with the various divisions who have responsibility for these accounts, and transfer any amounts to accounts in the General and Special Revenue Funds. This will be accomplished by June 30, 1996.

- *The Department of Agriculture should revise its practice of accumulating money in the federal accounts after it is earned.*

Department Response: The agency has set the goal of developing a procedure by February 15, 1996, to yearly review the balances in all federal fund accounts and determine which amounts are needed to be retained by the agency based upon actual or estimated commitments.

3. ***Payroll charges for the Agronomy Division's nonfederal dedicated accounts are inconsistent with information recorded on employee time reports.***

Recommendations

- *The Department of Agriculture should develop a payroll cost accounting system which reflects the actual employee charges to the specific programs, once every pay period, or utilize the new Minnesota Accounting and Procurement System.*

Department Response: The Commissioner's Office, Financial Administration Division and Agronomy Services Division will work to obtain computer software to develop an effective payroll cost accounting system. Successful implementation will require integration into the new payroll system which is not scheduled for implementation until December, 1995. Currently, the funding of positions are determined by the division based upon their estimated work. This is presented in the biennial budget, and position movements occur and positions are moved as requested by divisions within the non-federal fund areas. It is our intent to have this issue resolved by June 30, 1996, if the state system will allow the restructuring of expenditures in a timely and efficient manner.

- *The department should review time reports to be sure employee time is accurately charged to the proper programs on the SWA system.*

Department Response: For non-federal areas, the Department has traditionally not accumulated cost accounting data at the agency level and utilized it for administrative purposes each pay period. This data was not accumulated because the Department of Agriculture lacked the proper cost accounting software. However, the Department of Agriculture believes the variances found by this audit are sufficient enough each pay period that cost data for all 90 employees in Agronomy Services should be allocated against the division's 40 possible fund sources.

The variances are partly a result of inaccurate cost-accounting on employee time sheets. Therefore, the Department will increase staff education on the proper accounting of program hours on time sheets.


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The Department of Agriculture will make every attempt to obtain the appropriate software and conduct the necessary employee training in fiscal year 1996. However, the Department of Agriculture notes the potential high implementation cost and the limits of the state accounting and procurement system are implementation factors that may affect the expected implementation date and implementation performance.

Finally, regarding the East Grand Forks Seed Potato Facility construction issue, you have correctly noted the Department of Agriculture is still waiting for the Attorney General's conclusions and recommendations on this issue. We will be happy to respond to questions you may have on this issue once we have had the opportunity to fully review the Attorney General's report.

We appreciate the opportunity to respond to these recommendations and for the cooperation of your staff during this audit.

Sincerely,


Gene Hugoson
Commissioner

cc: Deputy Commissioner Bill Oemichen
Assistant Commissioner Sharon Clark