Department of Agriculture

Financial Audit
For the Period July 1, 1995, through June 30, 1997

August 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-47

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Eugene Hugoson, Commissioner
Department of Agriculture

We have audited the Department of Agriculture for the period July 1, 1995, through June 30, 1997. Our audit scope included: license and fee revenues, loan programs, claims and grants, payroll, and administrative expenditures. The following Summary 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 auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Agriculture complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the department is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Agriculture. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 20, 1998.

James R. Nobles
Legislative Auditor

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End of Fieldwork: April 22, 1998

Report Signed On: August 14, 1998

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SUMMARY

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Department of Agriculture

Financial Audit
For the Period July 1, 1995 through June 30, 1997

Public Release Date: August 20, 1998 No. 98-47

Agency Background

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

Audit Scope and Conclusions

Our audit scope included license and fee revenue, loan programs, payroll, administrative expenditures, claims and grant expenditures for the period July 1, 1995, through June 30, 1997.

We found that the department designed internal controls to provide reasonable assurance that revenues, expenditures, and loans were authorized, safeguarded, and properly recorded on the statewide accounting system (MAPS). However, we made some recommendations for improvement in agency procedures. The department needs to improve control over its billing procedures and promptly deposit of receipts. In addition, the Dairy Section operated in a deficit in fiscal year 1997 and, to alleviate the shortage, the department billed Grade A Dairy inspection fees early. We also noted that the Statutory Review Committee did not formally authorize county allocations of Best Management Practice Loans. The department also needs to tighten payroll system access controls and improve review of payroll reports. Finally, we determined that the department has not resolved a prior audit finding regarding federal reimbursement to state accounts for expenditures paid on behalf of their federal programs.

The department agreed with the audit report's findings and recommendations. They indicate that they have resolved, or are developing plans to resolve, all of the issues raised during the audit.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Pat Ryan	Audit Supervisor
Steve Johnson, CPA	Auditor
Shane Smeby, CPA	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Department of Agriculture at an exit conference held August 3, 1998:

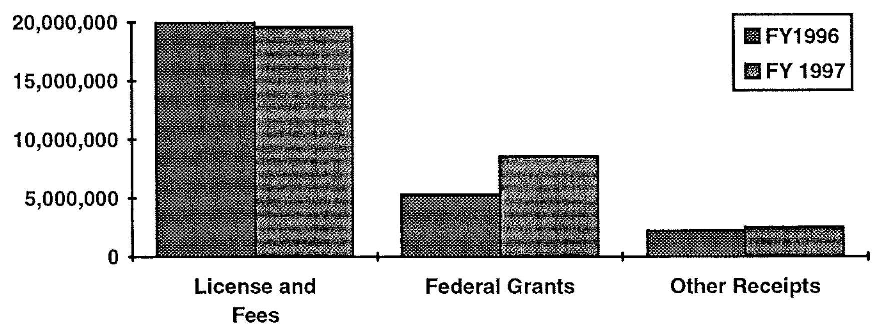
Sharon Clark	Deputy Commissioner
Becky Leschner	Director of Administrative Services
Al Louismet	Assistant Budget Director

Chapter 1. Introduction

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

Activities of the department are financed by General Fund appropriations and revenues earned from license, registration, and service fees. The department received a total of over $30 million in state appropriations for fiscal years 1996 and 1997. Figure 1-1 shows the volume of receipts from license and fees, federal grants, and other sources.

Figure 1-1
Department of Agriculture
Summary of Receipts
Fiscal Years 1996-97



Source: Minnesota Accounting and Procurement System (MAPS) for Fiscal Year 1996 and 1997, as of September 1996 and September 1997.

Payroll and fringe benefits were the largest operating cost for the department. A substantial amount of claims and grants were also disbursed, primarily for funding ethanol development programs. Payroll, administrative, claims, and grant expenditures are discussed in Chapters 4 and 5. Table 1-1 provides a summary of expenditures for fiscal years 1996 and 1997.

Table 1-1
Department of Agriculture
Summary of Expenditures
Fiscal Years 1996-97

	FY 1996	Percent	FY 1997	Percent
Expenditures:				
Payroll and Fringe Benefits	$20,832,784	47%	$21,249,356	44%
Claims and Grants	14,155,299	32%	17,103,571	35%
Rent	1,841,091	4%	1,834,223	4%
Supplies and Equipment	1,416,636	3%	1,676,952	3%
Travel	1,213,374	2%	1,162,410	2%
Other Expenditures	5,255,067	12%	5,685,085	12%
Total Expenditures	$44,714,251	100%	$48,711,597	100%

Source: Minnesota Accounting and Procurement System (MAPS) for Fiscal Year 1996 and 1997, as of September 1996 and September 1997.

The Department of Agriculture also awarded over $31 million in loans for various agricultural programs in fiscal year 1996 and 1997. Loan principal repayments were approximately $8.7 million and interest collections were $5 million for the two fiscal years. We discuss department loan programs in Chapter 3.

The department was recently reorganized largely due to a report issued by the Department of Administration's Management Analysis Division. The report, issued in October 1995, included recommendations regarding inadequate communication between the Financial Administration Division and various program divisions. To improve the fiscal responsibility of the program divisions, department management assigned program accountants in the various divisions to aid program administrators in decisions relating to financial management.

Chapter 2. License and Fee Revenue

Chapter Conclusions

The Department of Agriculture designed internal controls to provide reasonable assurance that the revenues from licenses and fees were adequately safeguarded and accurately recorded on the statewide accounting system (MAPS). For items tested, inspection fees and license revenues were appropriately collected and deposited. However, we did find the department needs to improve controls over divisional billing procedures and the timeliness of depositing receipts. We also found that the Dairy Section billed FY 1998 Grade A inspections fees in FY 1997 to alleviate budget shortfalls.

The department is responsible for the inspection and licensing of several activities related to agriculture. The functions of the agency are decentralized among various divisions. The divisions are responsible for issuing licenses and conducting inspections. We reviewed the operations of four of the agency's revenue generating activities. Table 2-1 shows revenues generated for the license and fee accounts we reviewed.

Table 2-1
Selected License and Fee Revenues
Fiscal Year 1996 & 1997

	FY 1996	FY 1997
Pesticide Regulatory Account	$ 4,936,167	$ 5,071,155
Grain Inspection Account	4,447,511	3,852,589
Consolidated Food Licenses	1,959,768	2,196,094
Dairy Services Account (1)	1,473,150	1,712,133
Total	$12,816,596	$12,831,971

Note: 1: Fiscal year 1997 Dairy Grade A inspections fees included revenues of approximately $340,000 that historically would have been billed in fiscal year 1998, see Finding 3.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996 and 1997, as of September 1996 and September 1997, respectively.

Pesticide Registrations

Minnesota Statute 18B.05 established the Pesticide Regulatory Account to govern the distribution, use, storage, handling, and disposal of pesticides. The Pesticide Regulatory Account collects revenues from a variety of pesticide related activities. These activities include pesticide registrations, licensing of pesticide applicators, issuing pesticide permits, and assessing penalties for violations.

Department of Agriculture

Grain Inspection

The Grain Inspection unit is responsible for providing impartial grain inspection services to grain producers, shippers, terminal elevators, and processors. The division provides services that allow Minnesota grain producers, buyers, and sellers to market their grain in an orderly manner, using official grain grades and weights. The division employs inspectors located throughout the state. The division has been designated by the US. Department of Agriculture to perform inspection and weighing activities at the Port of Duluth. The division's activities are funded by user fees.

Consolidated Food Licenses

Consolidated Food license requirements are set forth in Minnesota Statute Chapter 28A. The department is responsible for licensing and inspecting businesses involved in the production and sale of food in the state. These businesses include wholesale and retail food distributors. The division has 33 inspectors located throughout the state. The activities are funded by wholesale and retail food license fees.

Dairy Services

The Dairy section of the Dairy and Food Inspection division is responsible for inspecting Grade A and B dairy farms located in the state. Samples of milk are obtained and analyzed for composition, bacterial content, and proper labeling. The section employs approximately 23 inspectors statewide. Minn. Stat. Section 32.394 Subd. 8d provides that manufacturers of fluid milk products sold in the state must pay an assessment based on the amount of milk sold at the retail level. The division's activities are funded by inspection fees and assessments. The law allows the commissioner to set the processor assessment fee at a rate of between five cents and nine cents per hundredweight. The assessment has been six cents per hundredweight since May 1993. As explained in Finding 3, the Dairy Services account operated in a deficit in fiscal year 1997.

Audit Objectives and Methodology

Our review of the selected departmental license and fee revenue focused on the following questions:

- Did the department design and implement controls providing reasonable assurance that license and fee revenues were adequately safeguarded and properly recorded in the statewide accounting system?

- Was the appropriate amount of license and fee revenue collected and deposited by the department as required by statute?

To answer these questions, we interviewed department staff to gain an understanding of the controls over selected license and fee revenues. We tested a sample of license and fee transactions to determine if they were properly authorized, processed, and recorded. We also reviewed license and fee transactions to determine if the department complied with material finance-related legal provisions.

Conclusions

The Department of Agriculture designed and implemented internal controls to provide reasonable assurance that the revenues from licenses and fees were adequately safeguarded and properly recorded on the statewide accounting system (MAPS). For the items tested, the department collected and appropriately deposited the revenues generated from inspection fees and licenses. However, we found some weaknesses with divisional billing practices and timeliness of receipt deposits. We also found that the Dairy Section billed FY 1998 Grade A inspections fees in FY 1997 due to budget shortfalls.

1. The department needs to improve control over the issuance and recording of billing invoices.

The Department of Agriculture billing practices require improvement. The department centrally issues blank, prenumbered invoices to its divisions. The divisions then send out billings to clients for various services or fees. However, we noted the following problems with the department's procedures:

- Division billings or invoices are not sequential. Because the department centrally issues invoices to each division, gaps exist for invoices issued to other divisions. The break in sequence increases the risk that all billings may not be recorded in the collection records used to monitor outstanding invoices.

- One division was not accountable for all invoices issued to them. For example, the Dairy Division allowed another division to bill livestock weighing fees using invoices issued to the Dairy Division.

- The Dairy Division failed to record invoice numbers, or recorded the wrong invoice numbers, on the Grade A and B billing reports. Without invoice numbers, there is no assurance that all invoices have been posted to the billing reports which are used to monitor unpaid charges.

- The Dairy Division failed to record collection dates on all billing reports. Many billings were posted as collected, but the collection dates were not identified. This practice increased the risk that uncollected invoices could be posted as paid.

These concerns weaken controls designed to ensure that all invoices billed are recorded in the billing records and are ultimately collected. Department policy requires that divisions are responsible for each assigned invoice for audit purposes. Divisions are also responsible for monitoring outstanding billings, until collected. To improve the controls over the billing process, the department should consider developing a unique series of invoices for each division. This would allow divisions to control and account for all invoice sequences.

Recommendation

- *The Department of Agriculture should improve control over its billing process by:*
  - -- *developing unique invoices for each division that issues them;*
  - -- *sequentially issuing invoices;*
  - -- *recording invoice numbers on Dairy Grade A and B billing records; and*
  - -- *monitoring outstanding, unpaid invoices.*

2. The department did not promptly deposit receipts in accordance with state statute.

The Department of Agriculture did not deposit its receipts in a timely manner. The department indicated that at certain times of the year, when annual license fees are due, the cashier's unit cannot keep up with the volume of checks received. Our review of receipts collected during peak periods showed that eighteen deposits ranging from $9,744 to $537,017 took six to eight days to process. For example, we noted $347,794 was received on June 30, 1997, but was not deposited into the state depository until July 8, 1997. Of greater concern are delays that occur on deposits of large loan repayment checks. We noted that six of ten deposits of Rural Finance Authority loan repayment ranging from $7,408 to $335,253 were deposited one to six days late.

Minn. Stat. Section 16A.275 provides that "receipts should be deposited daily or when they exceed $250." Undeposited receipts retained in the department are susceptible to theft. In addition, the state lost the opportunity to earn interest on its funds.

Recommendation

- *The Department of Agriculture should deposit receipts, totaling $250 or more, on a daily basis as required by Minn. Stat. Section 16A.275.*

3. The Dairy Services account operated in a deficit in fiscal year 1997.

Due to a budget shortfall at the end of fiscal year 1997, the Dairy Services section billed fiscal year 1998 Grade A dairy inspection fees on June 1, 1997. The department had historically billed these fees on July 1 of each year and coded the fee revenue in the fiscal year earned. As a result of billing early, the department alleviated a budget shortage by collecting and depositing receipts totaling $340,000 in fiscal year 1997. The department also billed fiscal year 1999 inspection fees early to account for budget shortfalls in fiscal year 1998.

The Dairy Services account activities are financed by two main sources of revenue, Grade A Inspection fees and the Dairy Processor assessment. Minnesota Statute Section 32.394 allows the commissioner to raise the dairy assessment fee within a range of five cents per hundredweight of fluid milk to nine cents per hundredweight to provide adequate funding to carry out inspection activities. From May 1993 to June 1997 the rate was set at six cents per hundredweight. Effective July 1, 1997, the rate was increased to eight cents. The department should initiate plans for a rate increase to generate sufficient revenues to recover costs, or curtail spending for inspection activities.

Recommendation

- *The Department of Agriculture should closely monitor and develop plans to deal with budget shortfalls in the Dairy Services account.*

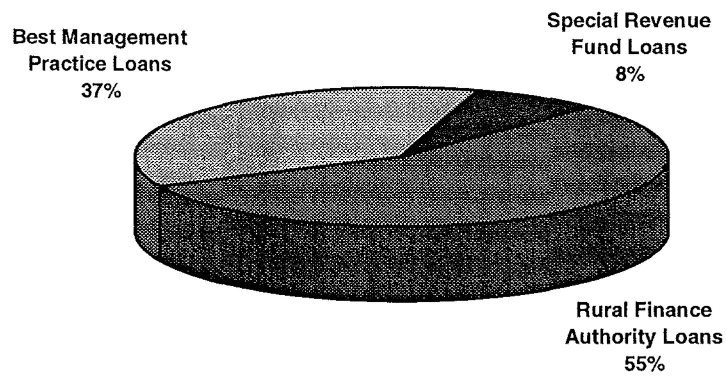
Chapter 3. Loan Programs

Chapter Conclusions

The Department of Agriculture designed controls to provide reasonable assurance that loans were authorized and recorded on the state's accounting system, and loan balances were updated for new loans issued and loan repayments. However, we found that the department lacked adequate documentation to support the authorized allocation of Best Management Practice (BMP) loans. For items tested, new loans issued and loan repayments were made in accordance with applicable finance-related legal requirements.

The department operates a variety of loan programs designed to assist farmers in improving their financial stability and to encourage farming practices that are energy efficient and environmentally sound. The loan programs are administered by the agency's Agricultural Finance Division. Figure 3-1 identifies disbursements for the largest loan programs during fiscal years 1996 and 1997.

Figure 3-1
Department of Agriculture
Loan Disbursements
Fiscal Years 1996 and 1997



Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1996 and 1997, as of September 1996 and September 1997.

Rural Finance Authority (RFA) Loans

Rural Finance Authority (RFA) loans are authorized by Minnesota Statutes Chapter 41B to enhance Minnesota agriculture production and processing capacity by creating programs that provide financial assistance to farmers and agricultural resource businesses. The department's Agricultural Finance Division manages the following types of RFA loans:

- Beginning Farmer and Seller Assisted loans are issued to help new farmers purchase land;
- Agriculture Improvement loans are offered for any farm-related purpose;
- Livestock Expansion loans are provided for state-of-the-art improvements of livestock facilities; and
- Restructure II loans assist farmers reorganize their debt.

RFA loan disbursements totaled $17,097,350 for fiscal years 1996 and 1997. Loan terms require repayment over a ten, fifteen, or thirty year period, depending on the type of loan issued. The department collected $6 million in RFA loan principal repayments and $5 million of interest during fiscal years 1996 and 1997.

Best Management Practices (BMP) Loans

Minnesota Statutes Section 17.117 established the Agriculture Best Management Practices (BMP) Loan Program to assist local units of government implement comprehensive water management plans. Funding for this program comes from the state and federal Environmental Protection Agency. The program provides interest-free loans to counties and local lenders. The local lenders then provide low interest loans to farmers, agriculture supply businesses, and rural landowners for implementation of practices that prevent or mitigate water pollution. Recipients are required to repay the loans to the local lender over ten years. Local lenders must begin to repay principal to the Department of Agriculture no later than ten years after the lender agreement and must be repaid in full within twenty years. BMP loan disbursements totaled $11,257,605 for fiscal years 1996 and 1997.

Special Revenue Fund (SRF) Loans

The department offers three different types of agricultural Special Revenue Fund (SRF) loans:

- The Ethanol Development Loan Program provides up to $500,000 in capital for ethanol production facilities;

- The Value-Added Loan Program provides low interest loans to farmers who want to purchase stock in a cooperative building or an agricultural processing facility; and

- The Sustainable Agriculture Loan Program also provides low interest loans to farmers for the purchase of capital equipment that will enhance farm profitability and benefit the environment.

During fiscal year 1996 and 1997, disbursements for Ethanol Development loans totaled $1,500,000, Value-Added loans amounted to $331,470, and Sustainable Agriculture loans were $542,764. The department collected principal and interest totaling $915,155 and $394,698, respectively, on Special Revenue Fund loans during the two fiscal years in our audit scope.

Department of Agriculture

Objectives and Methodology

Our review of the Department of Agriculture's loan programs focused on the following questions:

- Did the department design and implement controls to provide reasonable assurance that loans issued were properly authorized and accurately recorded in the statewide accounting system (MAPS)?

- Were loans issuances and repayments in compliance with material finance-related legal provisions?

To answer these questions, we interviewed department personnel to gain an understanding of the controls over processing the various loans. We sampled loan disbursements to determine if they were properly authorized, processed, and recorded. We also tested loan issuances and repayments to determine if the department complied with material finance-related legal provisions.

Conclusions

We found that the department designed controls to provide reasonable assurance that loans were properly recorded in the state's accounting system and properly authorized, except for Best Management Practice loans as explained in Finding 4. We also noted that loan records were updated for new loans issued and loan repayments. For the items tested, loans issued and repayments were made in accordance with applicable finance-related legal provisions. However, as previously discussed in Finding 2, the department has not promptly deposited loan principal and interest payments.

4. The Statutory Review Committee did not formally document authorization of county allocations for Best Management Practice loans.

The Statutory Review Committee, chaired by the Commissioner of Agriculture, did not document its approval of Best Management Practice allocations to counties. Minnesota Statutes Section 17.117 requires committee review of loan applications and approval of allocation amounts to selected counties. While we were told the committee was involved in determining the county allocations, they neglected to document approved allocations.

Recommendation

- *The Statutory Review Committee should document the approved allocations of Best Management Practice loans.*

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Chapter 4. Payroll and Administrative Expenditures

Chapter Conclusions

The Department of Agriculture designed controls to provide reasonable assurance that administrative and payroll transactions were authorized and properly recorded in the accounting records. For the items tested, payroll and other administrative costs were paid in compliance with material finance-related legal provisions, including applicable bargaining agreements. However, the department needs to improve security over payroll system access and implement an independent review of payroll transactions. We also found the department did not transfer federal funds to reimburse state accounts for costs paid on behalf of federal grant programs.

The Minnesota Department of Agriculture employs approximately 500 employees located primarily at 90 West Plato Boulevard in St. Paul and the Grain Exchange building in downtown Minneapolis. Lease rental agreements are processed through the Real Estate Management Division of the Department of Administration.

The department has nine divisions including many state and federal agricultural activities and programs. These programs are funded by state appropriations, user fees, and federal grants. The programs use various centralized functions such as accounting and payroll services. The cost incurred by these administrative activities, in so far as they benefit non-general fund programs, must be recaptured under a cost allocation plan. Minn. Stat. Section 16A.127, Subd 3 requires that agencies must reimburse the general fund for all statewide indirect costs, and that portion of agency indirect cost attributable to the recovery of general funds expenditures.

Administrative and operating expenditures of the department are highlighted in Table 4-1 and discussed in the following sections of this chapter.

Table 4-1
Department of Agriculture
Administrative Expenditures
Fiscal Year 1996 & 1997

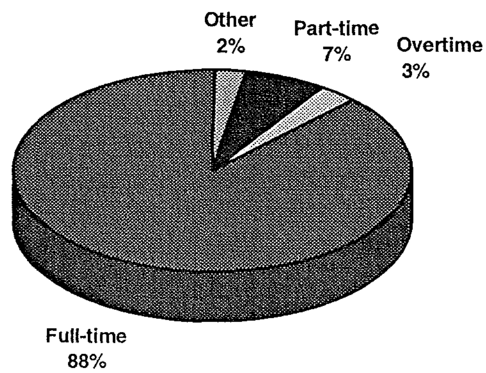
	FY 1996	FY 1997
Payroll and Fringe Benefits	$20,832,784	$21,249,356
Rent	1,841,091	1,834,223
Supplies and Equipment	1,416,636	1,676,952
Indirect Costs	1,755,762	2,008,685
Total	$25,846,273	$26,769,216

Source: Minnesota Accounting and Procurement System (MAPS) for Fiscal Year 1996 and 1997, as of September 1996 and September 1997.

Department of Agriculture

Payroll was the largest operating cost for the department in fiscal years 1996 and 1997, totaling approximately $42 million. Figure 4-1 shows the various types of payroll expenditures for fiscal years 1996 and 1997.

Figure 4-1
Payroll Expenditures
Fiscal Years 1996 and 1997



Source: Minnesota Accounting and Procurement System (MAPS) for Fiscal Year 1996 and 1997, as of September 1996 and September 1997.

Objectives and Methodology

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

- Did the department design controls to provide reasonable assurance that payroll and administrative transactions were accurate, authorized by management, and properly recorded on the state's accounting system?

- Were payroll and administrative expenditure transactions paid in compliance with material finance-related legal provisions and bargaining unit contract provisions?

To achieve our objectives, we interviewed department staff to gain an understanding of the controls over payroll and administrative expenditures. We sampled transactions to determine if they were properly authorized and recorded, and in compliance with material finance-related legal provisions and bargaining unit agreements.

Conclusions

For items tested, the Department of Agriculture accurately processed administrative and payroll transactions in accordance with material finance-related legal provisions and applicable bargaining agreements. We also found that the department designed controls to ensure that administrative and payroll transactions were authorized and accurately recorded on the state's accounting system. However, the department needs to improve security over access to the payroll system and implement an independent review of payroll transactions. In addition, we found that the department did not reimburse state accounts for federal grant indirect costs paid on their behalf.

5. SEMA4 access controls and the review of biweekly payroll reports require improvement.

Certain department employees had incompatible or unnecessary access to update SEMA4. In addition, certain divisions did not adequately review the SEMA4 Payroll Register and Payroll Posting Audit Trail reports. Weak access controls and lack of review of payroll processing reports allows errors or irregularities to occur and go undetected.

Our review of SEMA4 security reports revealed that three employees in the Human Resources division had the ability to update both personnel and payroll transactions. This allows Human Resource staff the ability to add, modify, or delete employee hours or post supplemental compensation. We also noted one employee who had the ability to post payroll hours into SEMA4, but had no job responsibility relating to payroll. The department should periodically review SEMA4 privileges to ensure that employees do not have access to incompatible functions.

SEMA4 Operating Policy and Procedure PAY00028 requires agencies to document their review of the Payroll Register and Payroll Posting Audit Trail. The review of the Payroll Register ensures the accuracy of employee hours worked, leave taken, and pay rates processed by SEMA4. Currently, the payroll entry clerk reviews this report for error messages, but does not review individual employee hours or rates. Ideally, an individual independent of payroll entry should perform this review. The review of the SEMA4 Payroll Posting Audit Trail is intended to ensure that payroll expenditures were posted to the correct MAPS accounts. Most divisions were not completing and documenting their review of the Payroll Posting Audit Trail.

Recommendations

- *The Department of Agriculture should restrict employee access to update SEMA4 based on job responsibilities. Also, SEMA4 access privileges should be periodically reviewed.*

- *Staff independent of the payroll entry function should review the Payroll Register to ensure the hours and pay rates in SEMA4 were correct.*

- *Divisions should review the Payroll Posting Audit Trail to ensure that payroll expenditures were charged to the correct MAPS accounts.*

6. PRIOR FINDING NOT RESOLVED: The department has not reimbursed state accounts timely for costs paid on behalf of federal programs.

The Department of Agriculture has not transferred monies to the General and Special Revenue Funds as reimbursement for federal program direct and indirect costs. This has caused large cash balances to accumulate in federal accounts. Generally, departments are prohibited from accumulating federal program cash balances by drawing federal funds in advance. The Legislative Audit Report 95-43 for the three fiscal years ended June 30, 1994, identified that the department carried forward a federal cash balance of $1,382,286 into fiscal year 1995 due to unreimbursed costs. As indicated in Table 4-2, federal cash balances carried forward have remained relatively unchanged since then. Pesticide Enforcement federal programs have accumulated the largest cash balance. Ideally, these federal accounts should operate with a zero balance after accounting for in-transit items.

Table 4-2
Department of Agriculture
Federal Account Carry Forward Amounts for
Fiscal Year 1995 through Fiscal Year 1998

	FY 1995	FY 1996	FY 1997	FY 1998
Pesticide Enforcement	482,472	852,884	910,328	876,040
Medicated Feed Inspection	26,545	32,490	41,164	41,603
Pesticide Applicators	101,953	153,156	141,946	85,343
Egg & Poultry Lab Analysis	139,981	129,750	76,102	96,963
Other Federal Accounts	631,335	447,444	294,259	222,026
Total	$1,382,286	$1,615,724	$1,463,799	$1,321,975

Source: Minnesota Department of Agriculture - Administrative Services Division.

Cash balances accumulate because the department finances many federal program expenditures and indirect costs from state accounts and does not reimburse the state accounts immediately, when the federal money is received. The department has developed procedures to annually review the fiscal year end cash balance in the federal accounts and make transfers to the General or Special Revenue Funds. However, these transfers were not completed prior to fiscal year end closing.

Recommendations

- *The Department of Agriculture should analyze the federal program account balances and transfer the appropriate amounts to General and Special Revenue Fund accounts.*

- *The department should implement procedures for promptly reimbursing state accounts for federal program charges and indirect costs.*

Chapter 5. Claims and Grants

Chapter Conclusions

The Department of Agriculture designed controls to provide reasonable assurance that claim and grant expenditures were accurate, properly recorded on the state's accounting system, and processed in accordance with management's authorization. For items tested, claims and grant expenditures were made in accordance with material finance-related legal provisions.

The Minnesota Department of Agriculture disbursed over $31 million in grants and claims for various types of agricultural related activities. Table 5-1 shows that the largest expenditures were provided for the Ethanol Development program and Chemical Response claims. The department also paid numerous other smaller grants specifically funded by state appropriations.

Table 5-1
Department of Agriculture
Claim and Grant Expenditures by Program
Fiscal Year 1996 and 1997

Grant Program:	1996	1997	Total	Percent
Ethanol Development Program	$10,799,192	$14,200,807	$24,999,999	80.0%
Chemical Response Program	1,405,497	1,619,326	3,024,823	9.7%
Administrative Programs	413,095	395,132	808,227	2.6%
Other Claims & Grants	1,537,515	888,306	2,425,821	7.7%
Total	$14,155,299	$17,103,571	$31,258,870	100.0%

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996 and 1997, as of September 1996 and September 1997.

The Ethanol Development program attempts to encourage in-state production of ethanol, anhydrous alcohol, and wet alcohol by providing a subsidy of twenty cents for each gallon produced. Nine production facilities currently exist in the state, and two more are now under construction. Funding for the program is capped at $25,000,000 for the biennium ending June 30, 1997, and $3,000,000 per producer for each fiscal year. The statutory formula providing a twenty cents per gallon subsidy will be reduced after June 30, 2000, until the program sunsets on June 30, 2010. However, the formula is floored at eleven cents per gallon by Minn. Stat. Section 41A.09, Subdivision 3a.

Responses to agricultural chemical spills and clean-up of contaminated sites are a major effort of the division. The Agricultural Chemical Response and Reimbursement Account (ACRRA), is funded through dedicated surcharges on pesticide and fertilizer licenses and registrations. The account provides reimbursement for clean-up costs up to $189,000 per incident. A five member board authorizes reimbursement. Clean-ups are conducted with department oversight.

Audit Objectives and Methodology

We focused our review of claims and grants on the following objectives:

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

- Were claims and grant expenditures paid in accordance with material finance-related legal provisions?

To achieve these objectives, we interviewed agency staff to gain an understanding of the controls over claims and grants. We performed analytical reviews of claims and grant expenditures and detail testing of transactions to determine if they were accurate, properly recorded, and authorized by management. We also reviewed transactions to determine if they complied with statutory grant limits and other material finance-related legal provisions.

Conclusions

The Department of Agriculture designed and implemented internal controls to provide reasonable assurance that claim and grant expenditures were accurate, properly recorded on the state's accounting system, and processed in accordance with management's authorization. For the items tested, claims and grant expenditures were made in accordance with material finance-related legal provisions.

Status of Prior Audit Issues As of April 22, 1998

Most Recent Legislative Audit

Legislative Audit Report 95-43, dated October 9, 1995, was a selected scope audit that was limited to appropriation control and department's cost allocation system, for the three years ended June 30, 1994.

The review of the department's appropriation controls found that the Grain Division overspent their appropriation in fiscal year 1994. To alleviate the shortfall the division received an $800,000 loan from the General Fund. During our current audit we determined that the Grain Division repaid the loan by June 30, 1997, as required. Another recommendation in this area involved the department's failure to reimburse state accounts from federal funds. This finding is not yet resolved and is repeated in the current audit report in Finding 6.

The review of the departmental cost allocation system identified two issues. The department implemented a payroll cost accounting system to remedy one concern. The second finding identified the need to review time reports to ensure that employees are accurately charged to the proper programs. While we did see improvement in this area in many divisions of the department, some divisions still have weaknesses requiring improvement. Our current audit identified certain payroll concerns reported in Finding 5.

State of Minnesota Audit Follow-Up Process

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

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Minnesota Department of Agriculture

August 11, 1998

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
1st Floor South
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

It was a pleasure to house your audit team in my office during their review of our department. The members of the team were professional and courteous during their stay.

Your report has been read and reviewed by our management team. The following is their response to your findings and recommendations:

Finding 1: The department needs to improve control over the issuance and recording of billing invoices.

The department is currently exploring the options to strengthen control of our invoicing system. At this time we are moving forward in designing a smart-coded invoice system that will identify the division in the coding and will be sequentially numbered. This will enable each division to be responsible for its own invoices. A central file will be maintained. The department expects to have this revised system in place by December 31, 1998.

Finding 2: The department did not promptly deposit receipts in accordance with statute.

The department has resolved this finding. We have changed the daily deposit time, enabling us to meet the daily deposit statute.

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Finding 3: The Dairy Services account operated in a deficit in fiscal year 1997.

As mentioned in your report, the department did increase fees from six cents to eight cents a hundredweight on July 1, 1997. As you are aware, the dairy industry in Minnesota continues to lose an average of three dairy farmers a day. We will again continue our efforts to stabilize this account at the next legislative session with an initiative.

Finding 4: The Statutory Review Committee did not formally document authorization of county allocations for Best Management Practices Loans.

The department will record minutes of the meetings. This practice will begin with the next authorization process.

Finding 5: SEMA4 access controls and the review of biweekly payroll reports require improvement.

The department has resolved this finding. SEMA4 clearances were reviewed and changed. Additionally, the department has assigned a second position for payroll responsibilities. The two positions will audit each other's input to ensure that hours paid are accurate. This, along with program accountants' payroll cost reviews, will ensure that payroll hours and pay rates are correct.

Finding 6: Prior Finding Not Resolved. The department has not reimbursed state accounts timely for costs paid on behalf of federal programs.

This finding is in the resolution process. Initial documentation has been provided to the accounting section for auditing to determine the amounts that will be reimbursed for each grant. The final determination and transfer of funds will be accomplished by December 31, 1998. The department is also taking an additional step. Effective October 1, 1998, we will no longer allow more than one federal grant fiscal year in an appropriation. Each new grant year will be assigned a new appropriation number and cash will not be carried forward into the new appropriation.

If you have any questions, or require additional information, please contact Becky Leschner at 217-5770. She is also assigned the responsibility of monitoring our progress in resolving the findings.

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James Nobles, Legislative Auditor
August 11, 1998

Again, thank you and your staff for your review and recommendations on how to improve our department.

Respectfully,

Sharon K. Clark / for

GENE HUGOSON
Commissioner

GH:mcp