State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

DEPARTMENT OF AGRICULTURE

FY 2006, 2007, and 2008

Report IC21008
Date Issued: October 19, 2009

Serving Idaho's Citizen Legislature

Don H. Berg, Manager

Idaho Legislative Services Office
Legislative Audits Division

DEPARTMENT OF AGRICULTURE

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Department of Agriculture covering the fiscal years ended June 30, 2006, 2007, and 2008. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported. We also performed some review procedures for the Bureau of Weights and Measures, Soil Conservation Commission, and several of the agricultural inspection and control programs.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Department or the various inspection and control programs. However, our review of the Bureau of Weights and Measures and the Soil Conservation Commission disclosed control weaknesses and other conditions related to accounting procedures and compliance with existing laws and rules.

FINDINGS AND RECOMMENDATIONS

This report contains four findings and recommendations as follows:

1. The standards for weights and measures have not been properly calibrated with national parameters as required by Idaho Code.
2. Requests for loan payments exceeded available funds and delayed payments to borrowers.
3. Data in the automated loan program system is inaccurate and inconsistent.
4. Weaknesses exist in the internal controls over loan collection activities.

The complete findings are detailed on pages 1 through 5. A copy of this report is available at http://www.legislature.idaho.gov/audit or by calling 208-334-4832.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior management review for the fiscal years ended June 30, 2003, 2004, and 2005 contained three findings and recommendations. These issues were evaluated in the 90-day follow-up report issued in February 2007 and are now considered closed. Both the prior management report and the 90-day follow-up report are available on our Web site.

AGENCY RESPONSE

The Department of Agriculture and the Soil Conservation Commission reviewed this report and are in general agreement with its contents.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

DEPARTMENT OF AGRICULTURE – FISCAL YEAR 2008

Fund	Fund Number	Beginning Appropriation/ Cash Balance	Plus Receipts	Plus Net Transfers	Less Disbursements	Ending Appropriation/ Cash Balance
General Fund	0001	$16,453,662	$12,367	$0	$16,407,809	$58,220
Animal Damage Control	0052	0	0	100,000	100,000	0
Indirect Cost Recovery	0125	572,143	1,064,440	0	836,020	800,563
Budget Stabilization	0150	44,033	0	0	44,033	0
Agricultural Smoke Management	0183	195,895	21,317	(208,525)	8,687	0
School District Building Account	0315	0	3,750	(3,750)	0	0
Agriculture in the Classroom	0320	84,731	3,298	33,310	33,893	87,446
Agricultural Inspection	0330	548,436	1,414,482	0	1,361,392	601,526
Special Pest Eradication (Note A)	0331	(665,096)	0	255,000	221,906	(632,002)
Agricultural Fees	0332	3,004,588	5,447,234	528,048	5,160,252	3,819,618
Federal (Grant) (Note B)	0348	241,462	3,712,600	(500,000)	4,273,108	(819,046)
Seminars and Publications	0401	47,644	272,597	0	242,111	78,130
Quality Assurance Lab Services	0402	531,321	235,563	0	316,685	450,199
Rural Economic Development	0403	0	147,780	5,284,388	482,052	4,950,116
Fresh Fruit and Vegetables	0486	4,150,237	7,326,258	0	6,863,611	4,612,884
Rural Rehabilitation	0490	174,207	61,722	0	1,930	233,999
Commodity and Seed Indemnity	0491	4,531,186	2,565,204	0	449,296	6,647,094
Resource Conservation	0522	527,470	2,008,641	0	2,536,038	73
Water Facility Loan	0529	68,738	81,270	(49,596)	19,600	80,812
Total Fund Balances		$30,510,657	$24,378,523	$5,438,875	$39,358,423	$20,969,632

Notes:

A The Special Pest Eradication Fund 0331 has a negative cash balance as a result of deficiency warrants issued as authorized by Idaho Code, Section 22-2019.

B. The Federal (Grant) Fund 0348 has a negative cash balance resulting from a "borrowing limit" of $1.5 million established for cash flow purposes.

OTHER INFORMATION

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Department of Agriculture and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Celia Gould, and her staff.

ASSIGNED STAFF

Eugene Sparks, CPA, CGFM, Managing Auditor
Patrick Aggers, CPA, In Charge Auditor
Kyle Wilmot, Staff Auditor
Brinton Croff, Staff Auditor

IC21008

TABLE OF CONTENTS

Findings and Recommendations 1

Agency Response 6

Appendix 9

FINDINGS AND RECOMMENDATIONS

FINDING 1

The standards for weights and measures have not been properly calibrated with national parameters as required by Idaho Code.

Idaho Code, Section 71-231 requires the Department to calibrate its weights and measures standards to the National Institute of Standards and Technology (NIST) parameters. The standards for weights and measures are used by the department to ensure that all commercial devices used within the State are properly licensed and approved, and that the correct amount of product is identified.

Of the 69 primary mass standards (e.g., pounds, milligrams, and kilograms), 42 have not been calibrated since 1970, and none of the 3 environmental standards (temperature, humidity, and barometric pressure) have been calibrated since 1997. The NIST recommended standards for calibration intervals are every 4 years for primary mass and every 2 years for environmental standards. Although alternative testing methods are used to check calibrations, the weights and measures standards used by the Department have not been calibrated as required and could result in errors or other variances in inspection results.

RECOMMENDATION 1

We recommend that the Department calibrate weights and measures standards with the NIST standards as required by Idaho Code.

AGENCY'S CORRECTIVE ACTION PLAN

The Idaho State Department of Agriculture is committed to establishing and maintaining adequate internal controls. We are committed to properly applying and enforcing these established internal controls throughout all of the programs of the Department. We welcome and appreciate the audits of our programs provided by Legislative Services. The current audit contains one finding and recommendation to help the Department comply with Idaho Statute requiring proper calibration of weights and measures standards.

RESPONSE TO THE FINDING

The Department will calibrate the weights and measures standards to the National Institute of Standards and Technology (NIST) parameters as required by Idaho Code, Section 71-231. The Department will calibrate the outdated standards within the next six months.

SOIL CONSERVATION COMMISSION

The following three findings relate to the Soil Conservation Commission's Resource Conservation and Rangeland Development loan program.

The Soil Conversation Commission is created within the Department of Agriculture by Idaho Code, Section 22-2718. Part of the Commission's responsibilities is to operate the Resource Conservation and Rangeland Development loan program, which provides low-interest loans to farmers and ranchers for resource management projects and improvements. The number of loans outstanding has remained fairly constant over the past several years at about 200 loans.

Loans are available for up to $125,000 and are usually secured by a first mortgage. Most loans are for projects to conserve soil and water resources, improve riparian areas for multiple uses, conserve and improve fish and wildlife habitat, and promote efficient and beneficial use of water resources.

FINDING 2

Requests for loan payments exceeded available funds and delayed payments to borrowers.

During fiscal year 2008, the Commission received requests for payments on approved loans greater than the available cash, which depleted the cash balance of the fund to $73 as of June 30, 2008. Although the loan application form contains language that payments are subject to the availability of funds, the actual loan agreement states that funds will be available once the loan has been approved.

The Commission made payments on a first-come, first served basis, which delayed payments for several months to some borrowers who had approved loans. For example, a loan for $100,000 was approved in May 2008 and the borrower requested a partial reimbursement of $60,800 during this same month, but was not paid until October. Another loan for $58,000 was approved in January 2008, and the borrower completed the project in April and submitted a request for payment in September, but was not paid until December 2008.

The delays in loan payments are due to the Commission's aggressive efforts to meet program objectives and the lack of a comprehensive cash flow schedule to consider when approving loan applications.

RECOMMENDATION 2

We recommend that the Commission develop a comprehensive cash flow schedule and consider the available cash balance when approving loan applications to avoid future delays in loan payments to borrowers.

AGENCY'S CORRECTIVE ACTION PLAN

The Commission will address this recommendation as two separate issues:

1) The Commission agrees that a comprehensive cash flow schedule would assist the Commissioners when approving loan applications. Currently, a monthly actual balance and a five-year comprehensive cash flow projection are compiled and presented to the Commission members at each bi-monthly meeting. The Commission will continue this practice in consultation with the ISDA Fiscal Officer to ensure fiscal responsibility and availability of funds when making decisions about approving new loans and/or modifying existing

loans. The Commission will also summarize the cash flow information in the official minutes so there is a transparent record of the balances and projections being considered.

2) The Commission agrees that delays in loan payments to borrowers should be avoided to the greatest extent possible and strives for all payments to be made no later than 60 days after the request is received. Loan payment procedures are delineated in each contract and the borrower agrees in advance that funds are subject to availability at the time reimbursement is requested, as outlined in the Agreement of Conditions, page one, item one. The Commission will formalize operating policy to ensure that communications with borrowers and the vendors associated with their loans is documented, especially when it includes any deviations to reimbursement requests outside of the contract terms.

FINDING 3

Data in the automated loan system program is inaccurate and inconsistent.

The Commission uses an automated loan program system to track loans, payments, notifications, and print delinquent loans reports. We noted errors and inconsistent data in the system as follows:

a) Late fees for delinquent loan payments have not been assessed for 18 months. The software system used to track loans was not properly calculating late fees, so the Commission disabled this feature and began to manually calculate these amounts. However, these manual calculations have not been performed for the past 18 months and no late fees were assessed during this period. The amount of uncollected late fees could be substantial, given that one delinquent loan we reviewed was not assessed late fees of $4,000.

b) Interest is not properly calculated for all loans. Loan documents specify that a simple interest rate will be applied, but about 20% of the loans are set up in the system with a different interest rate calculation method. This causes errors in the amounts of interest charged and reported to the borrowers for income tax purposes. Although the amounts are corrected on subsequent transactions, these errors can create significant issues for borrowers and others who rely on this data.

c) Prepaid loan payments are not properly recognized. Payments received more than a month in advance of the due date are not correctly recognized. We identified one payment that was reported as delinquent even though it was received in advance. This is a software issue, which requires the Commission to hold payments for processing until the due date is less than a month in advance.

d) Payments due on loans-in-process are not billed. The billing feature in the automated system is applied to only those loans where all funds have been disbursed to the borrower. However we noted two loans-in-process that require repayments to begin before the full amount of the loans were disbursed. The system did not include these in the billing process, and as such, payments due on these two loans of almost $20,000 were not billed or collected.

The automated loan program system was developed by an outside consultant and the Commission does not have the expertise to properly maintain or correct system issues.

RECOMMENDATION 3

We recommend that the Commission evaluate and adjust the automated system to properly calculate late fees, calculate and report interest correctly, recognize prepayments on loans when received, and bill loans-in-process in accordance with the loan documents. These efforts may require the services of an outside consultant.

AGENCY'S CORRECTIVE ACTION PLAN

The Commission agrees with the recommendations and initiated multiple management actions and improvements during FY 2009. In June 2009, a consultant for the automated loan system was on-site to make programming changes to the system so that it will correctly calculate late fees, interest, and billing statements. During the consultant's on-site visit, loan program templates were created to ensure the proper parameters were set for each individual loan program. The consultant also trained the loan staff on the proper method for receiving and disbursing prepayments. Going forward, documentation will be made when early payments are received from borrowers. An internal staff review is currently underway and will soon be completed to examine each individual loan account for accuracy in the system. This review will ensure that the 1098 interest statements for 2009 are properly distributed as required to borrowers.

FINDING 4

Weaknesses exist in the internal controls over loan collection activities.

The Commission has developed and documented internal control policies and procedures over collection activities, but these have not been consistently applied as follows:

a) The loan officer handles collections and also initiates loan reimbursements, which are incompatible duties and should be segregated.

b) Checks are not always stamped "for deposit only" when received.

c) Collections are stored in an unlocked desk drawer for several days and not deposited promptly.

These conditions raise the risk that collections could be misplaced, lost, or diverted, and such events would be difficult to detect.

RECOMMENDATION 4

We recommend that the Commission consistently follow internal control policies and procedures over collection activities.

AGENCIES CORRECTIVE ACTION PLAN

The Commission agrees with the recommendations and has taken action to document and follow internal controls. Separation of duties have been outlined between the Loan Analyst and Administrative Assistant to ensure integrity and accountability. Standard Operating Procedures have been outlined and will be formally documented into manuals for each position. Operating procedures already in place include: segregation of handling collections and disbursements; incoming checks are restrictively endorsed by the Department of Agriculture's mailroom or, alternatively, by the Commission immediately upon receipt; and collections are input and disbursed into the automated loan system the day of receipt. If the Administrative Assistant is not available to enter collections, they will be processed by an employee other than the Loan Analyst as designated by the Commission Administrator or ISDA Fiscal Officer.

AGENCY RESPONSE

STATE OF IDAHO

DEPARTMENT OF AGRICULTURE

C.L. "BUTCH" OTTER
Governor
CELIA R. GOULD
Director

August 21, 2009

Mr. Don H. Berg
Manager
Legislative Services Office
P.O. Box 83720
Boise, ID 83720-0054

Dear Don,

Attached is a copy of our response to the audit finding included in the Management Report on Internal Control for the State of Idaho. If you have questions or concerns over any of our responses, please contact me or Kelly Nielsen, Fiscal Officer, at 332-8500.

Sincerely,

Celia R. Gould

Celia R. Gould
Director
Idaho State Department of Agriculture

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Idaho Soil Conservation Commission

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Commission Members
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Bill Flory, Vice-chair
Joe Davidson, Secretary
Dwight Horsch
Dick Bronson

Administrator
Sara Schmidt

September 24, 2009

Eugene Sparks, CPA, CGFM
Managing Auditor
Legislative Services Office
PO Box 83720
Boise, ID 83720

Mr. Sparks,

The Idaho Soil Conservation Commission (Commission) is in receipt of the Management Review for the Department of Agriculture in FY 2006, 2007, and 2008. We welcome and appreciate the review and subsequent discussion about the Resource Conservation and Rangeland Development Program (RCRDP) provided by Legislative Services. Since FY 2008, the Commission has actively managed the RCRDP program to ensure program objectives are met, internal controls are in place, and the privacy of the borrower's personal information is protected. We are prepared to address the findings and recommendations suggested pertinent to the Commission with the following Corrective Action Plan.

FINDING 2
Requests for loan payments exceeded available funds and delayed payments to borrowers.

RECOMMENDATION 2
We recommend that the Commission develop a comprehensive cash flow schedule and consider the available cash balance when approving loan applications to avoid future delays in loan payment to borrowers.

CORRECTIVE ACTION PLAN
The Commission will address this recommendation as two separate issues:

1) The Commission agrees that a comprehensive cash flow schedule would assist the Commissioners when approving loan applications. Currently, a monthly actual balance and a five-year comprehensive cash flow projection are compiled and presented to the Commission members at each bi-monthly meeting. The Commission will continue this practice in consultation with the ISDA Fiscal Officer to ensure fiscal responsibility and availability of funds when making decisions about approving new loans and/or modifying existing loans. The Commission will also summarize the cash flow information in the official minutes so there is a transparent record of the balances and projections being considered.
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FINDING 3
Data in the automated loan system is inaccurate and inconsistent.

RECOMMENDATION 3
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CORRECTIVE ACTION PLAN
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FINDING 4
Weaknesses exist in the internal controls over loan collection activities.

RECOMMENDATION 4
We recommend that the Commission consistently follow internal control policies and procedure over collection activities.

CORRECTIVE ACTION PLAN
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Respectfully submitted,

Sara Schmidt
Administrator
Idaho Soil Conservation Commission

APPENDIX

HISTORY
The Idaho State Legislature created the Department of Agriculture in 1919. Since that time, the Department has added and deleted various programs to fulfill the needs of Idaho's agricultural industry. Department activities currently include both regulatory and assistance programs.

PURPOSE
The Department works to ensure that Idaho agricultural products are high quality, disease free, and meet federal and State laws, rules, and regulations. By ensuring these high standards, Idaho's products are allowed to move in interstate commerce. The Department is also responsible for promoting the marketing of agricultural products.

STATUTORY AUTHORITY
Statutory authority for the Department of Agriculture is found in Title 22, Chapter 1 of the Idaho Code.

ORGANIZATION
The Governor, with the advice and consent of the Senate, appoints the director of the Department. The director's duties are included in Idaho Code, Section 22-103. To accomplish these duties, and as provided in Idaho Code, Section 22-102, the director has organized the Department into an administrative unit and five divisions. The following is a description of the Department's organizational units.

Administrative Unit
This section provides support services to Department divisions, including fiscal, information systems, personnel, and legal.

Division of Marketing and Support Services
This service expands domestic and international markets for Idaho food and agriculture products by providing a range of services tailored to Idaho companies, including exporter education, trade shows and missions, promotions, and trade offices.

The Rural Rehabilitation Loan Program offers financing and assistance to individuals and organizations who cannot obtain credit from conventional sources, and whose projects and efforts help generate rural economic development in Idaho.

Division of Animal Industries
The Bureau of Veterinary Services employs veterinarians and livestock inspectors to control infectious and contagious livestock diseases. The bureau licenses artificial inseminators, rendering establishments, and livestock dealers, and cooperates with the USDA to control various diseases.

The bureau also inspects various dairy and egg products, as well as plants, to ensure sanitation and quality. The bureau licenses creameries, cheese factories, cheese processing plants, powdered milk plants, ice cream and mix making plants, condensaries, cream buying stations, Babcock testers and graders, and bulk-milk haulers.

The Bureau of Vegetation Management has two programs: (1) noxious weed control coordinates statewide and regional noxious weed control programs and activities, and (2) range management serves as liaison to industry, and as a facilitator and moderator to assist in bringing together opposing factions on natural resource issues.

Division of Plant Industries

The Bureau of Plant, Feed, and Fertilizer regulates the feed and fertilizer industries, and works to control and eradicate plant diseases and pests. The bureau also licenses Idaho nursery workers and florists. All commercial feeds and fertilizers must be registered by this bureau.

The Bureau of Labs provides analytical services to animal, dairy, plant, fertilizer, and seed industries by testing for diseases and determining the quality of samples.

Division of Agricultural Inspection

The Bureau of Weights and Measures protects Idaho producers and consumers by regulating and inspecting weighing and measuring devices. Inspectors in four districts throughout the State regularly inspect all types of weighing and measuring devices, and investigate complaints from consumers and other private sources. The bureau also licenses weighmasters throughout the State.

The Bureau of Shipping Point Inspections (fresh fruit and vegetables) completes inspections, mostly at the request of the packer, on all types of fresh fruits and vegetables in the State. Inspectors and samplers are stationed in seven offices located in major production areas. The bureau inspects potatoes, onions, cherries, apples, peaches, pears, nectarines, plums, prunes, and apricots. The inspections comply with a federal and State cooperative agreement to ensure national acceptance. Inspection fees support the bureau.

The Bureau of Warehouse Control annually inspects and examines each licensed public warehouse, ensuring that sanitation, marketing procedures, and records are kept in accordance with Idaho laws. The bureau is also responsible for licensing all bonded warehouses and commodity dealers.

Division of Agricultural Resources

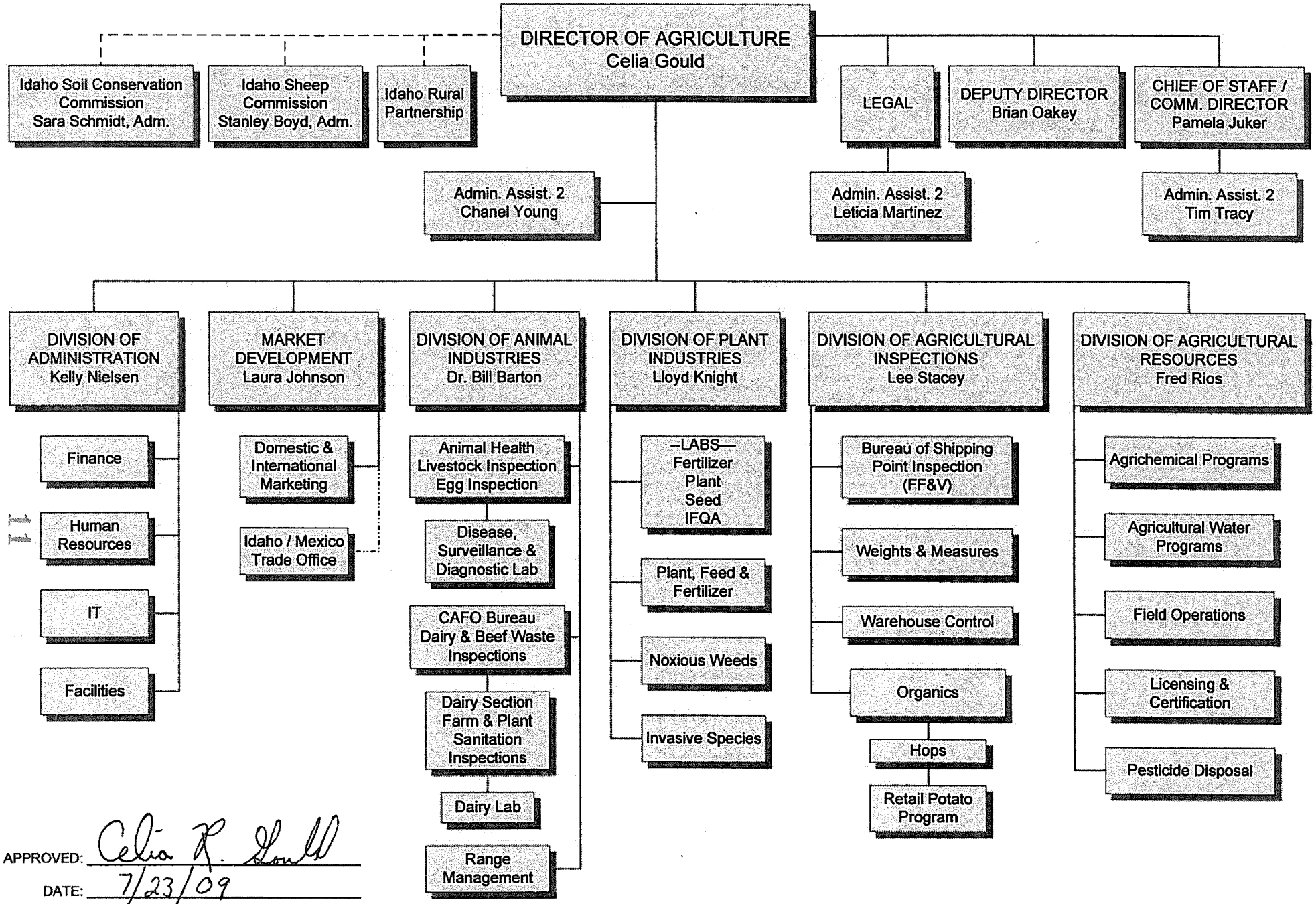
This division regulates compliance with laws and regulations governing the use of pesticides in Idaho through education and reinforcement. The division ensures proper registration and sale of pesticides, fertilizers, and soil and plant amendments within the State, and regulates the pesticide industry by ensuring proper sale and use of chemical pesticides. This Division must register all pesticide dealers and applicators operating in Idaho.

To conduct these various programs, the Department has 197 full-time employee positions. At times, the Department has approximately 400 to 500 employees due to seasonal fluctuations.

FUNDING

The Department is funded by the General Fund, inspection fees, license fees, federal funds, and miscellaneous receipts.

IDAHO STATE DEPARTMENT OF AGRICULTURE



APPROVED: Celia R. Gould

DATE: 7/23/09

Revised 7/01/09