



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
RALEIGH, NORTH CAROLINA
FOR THE PERIOD JULY 1, 2002 THROUGH JANUARY 31, 2003**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FISCAL CONTROL AUDIT REPORT ON
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Meg Scott Phipps, Commissioner

This report presents the results of our fiscal control audit of the Department of Agriculture and Consumer Services for the period July 1, 2002 through January 31, 2003. Our work was performed by authority of Article 5A of Chapter 147 of the General Statutes and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions.

The results of our audit disclosed an instance of noncompliance that is described in the Audit Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
BACKGROUND INFORMATION	1
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS	3
AUDIT FINDINGS AND RECOMMENDATIONS.....	9
DISTRIBUTION OF AUDIT REPORT	11

BACKGROUND INFORMATION

The North Carolina Department of Agriculture & Consumer Services operates a broad range of service and regulatory programs that ensure the availability of life sustaining food and natural fiber, free of adulteration and contamination, and produced in a manner consistent with environmental agricultural production. Programs are operated to benefit consumers, to protect the environment, and the health and economic well being of all North Carolina citizens and business enterprises.

The Department has 20 divisions, 6 of which serve as staff to the Commissioner and other divisions. They are Budget and Finance, Human Resources, General Administration, Property and Construction, Agriculture Policy and Analysis and Public Affairs. The other 14 divisions not only promote and sustain North Carolina's \$59.2 billion agricultural industry, they also provide services that impact every resident of the State, including food safety inspections, price scanner and gas pump testing, soil testing, regulation of pesticides, and the control of unwanted pests and plants.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the General Statutes and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Department of Agriculture and Consumer Services. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions for the period July 1, 2002 to January 31, 2003.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected operations and activities in the following divisions:

- Plant Industry Division

The Plant Industry division protects plants, plant products and other beneficial organisms from the adverse effects of pests; conserves endangered plant

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

species and protects honeybees and other beneficial insects and organisms; and manages fertilizer and seed inspection efforts to ensure these production inputs are properly labeled. It also administers plant pest laws and inspects plant nurseries.

- **Marketing Division - Cooperative Grading Service**

Marketing promotes the domestic and international sale of North Carolina commodities and value-added products. The Cooperative Grading Service is in this division. The Cooperative Grading Service offers voluntary inspection of fresh fruits and vegetables, peanuts, tree nuts, specialty and ornamental crops. The service certifies conformity or nonconformity to United States and other grades or contract specifications. The service is provided by the North Carolina Department of Agriculture and Consumer Services in cooperation with the United States Department of Agriculture. The service is available upon request to aid growers, shippers, brokers, receivers, processors, insurance adjusters or other financially interested parties in the packing and marketing of their product. Fees from the applicant make the service self-supporting.

- **Research Stations Division**

The Research Stations Division provide the research infrastructure and management services at 18 research stations to researchers from North Carolina State University and North Carolina Agricultural and Technical State University who conduct agricultural research projects. Research station

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

personnel cooperate with scientists at land-grant universities to develop new agronomic products, improve livestock and poultry breeds, and develop better management practices.

The specific internal control categories audited include:

General

Control Environment - The control environment consists of the actions, policies, and procedures that reflect the overall attitude of top management about control and its importance to the entity. The control environment sets the tone of the organization, influencing the control consciousness of its employees.

Financial Accounting and Reporting

Revenue Cycle - An entity's revenue cycle generally consists of the activities associated with the receipt of cash and billing for amounts due from other parties. Financial statement accounts typically impacted by the cycle include cash, sales and services, fees and licenses, contributions, gifts and grants, and transfers in. Our audit of this cycle was limited to sales and services for the research stations, all plant protection revenues and transfers in, and fees, licenses and fines for cooperative grading.

Expenditure Cycle - An entity's expenditure cycle generally consists of the activities associated with disbursing cash for items other than payroll costs. Financial statement accounts typically impacted by this cycle include cash, supplies, capital outlay, reimbursements and other expenditures. Our audit of this cycle was limited to supplies and materials for the research stations, contracted personal service and

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

reimbursements and capital outlay for plant protection, and all expenditures for cooperative grading.

Payroll Cycle - An entity's payroll cycle generally consists of the activities associated with paying for human resources. Financial statement accounts typically impacted by this cycle include cash, salaries, and benefits. Our audit of this cycle was limited to salaries and benefits for the research stations, plant protection and cooperative grading.

Finance-related Compliance

Deposit of Receipts - Laws, regulations, and/or contracts commonly require entities to deposit moneys coming into their control as soon as possible in order to safeguard assets and to enhance the cash management and investment program. For example, receipts over a specified amount may be required to be deposited on a daily basis.

Procurement - Laws, regulations, and/or contracts commonly prescribe purchasing procedures for certain types of transactions and specified dollar thresholds. For example, an entity may be required to solicit written bids for purchases over a specified amount. Our audit was limited to the Plant Protection Division and the Research Stations Division.

Payroll and Personnel - Laws, regulations, and/or contracts commonly prescribe procedures for human resource activities. For example, entities may be required to document the justification for hiring decisions and perform background checks prior to employing new staff.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

RESULTS

The results of our audit disclosed an instance of noncompliance that is described in the Audit Findings and Recommendations section of this report.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Accounting, Reporting, or Compliance

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control over financial accounting and reporting or compliance with finance-related laws, regulations, and contract provisions.

PAYROLL DOCUMENTATION INCOMPLETE

We noted the following errors during our examination of payroll documentation for permanent and temporary employees:

- Of the fifty-eight employees tested from the Research Stations Division and the Plant Industry Division, ten permanent employee files did not contain either an I-9 form or backup documentation for the I-9.
- Of the seventy-eight permanent and temporary employees tested from the Cooperative Grading Division, eight files did not contain an I-9 form or the required backup documentation.
- One file for a temporary employee did not have a signed application.

Adequate controls require that each employee have an application on file, an I-9 form, and other necessary documentation. Failure to obtain and maintain adequate payroll documentation could result in payments to fictitious or ineligible employees.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The 1986 Immigration Reform and Control Act require that employers complete Employment Eligibility Verification Forms I-9 for all employees hired after November 6, 1986. Employers should keep copies of I-9 documentation forms on file for each employee.

Recommendation: We recommend that controls over the payroll process be enhanced to ensure that appropriate and adequate documentation is maintained for each employee.

Agency's Response: The Department concurs with the audit finding. We will emphasize the importance of obtaining I-9's and the documentation to support verification on all new employees. Also, our internal auditor will (during his routine audits) implement procedures to test compliance with the requirements of the 1986 Immigration Reform and Control Act. Where possible, we will obtain the missing information on those employees identified during the State audit. We will also emphasize the importance of completed and signed applications and will review this control during our routine internal audits.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Meg Scott Phipps	Commissioner of Agriculture

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Mr. James D. Johnson	Director, Fiscal Research Division

May 19, 2003

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