



# STATE OF NORTH CAROLINA

DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES  
FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

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**AUDITOR'S TRANSMITTAL**

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July 6, 2009

The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Steve Troxler, Commissioner

This report presents the results of our fiscal control audit at the Department of Agriculture and Consumer Services. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the Department of Agriculture and Consumer Services. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

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.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

Our audit scope covered the period July 1, 2008 through December 31, 2008 and included selected internal controls in the following organizational units:

### **Budget and Finance**

This organizational unit is responsible for the general accounting functions of the Department. The unit accounts for and issues financial reports covering the Department's operations.

### **Human Resources**

This organizational unit is responsible for providing support to the Department's divisions in all areas of personnel administration.

### **Structural Pest Control and Pesticides Division**

This Division protects public health and safety by regulating the pesticide and pest control industry. The division licenses commercial operators and administers laws governing the industry.

During our audit, we considered internal control related to the following accounts and control objectives:

*Personal Services* – This account includes expenditures incurred for services rendered by permanent and temporary employees. The Department reported approximately \$31.8 million in personal service costs during our audit period. We examined internal control designed to ensure that the Department properly accounts for and reports these expenditures.

*Travel Advances* – These expenditures are made by the Department to employees traveling on state business. The Department issued travel advances of approximately \$56,000 during our audit period. We examined internal control designed to ensure that the Department properly accounts for the expenditures and that advances are made in compliance with state policy.

*Pesticide Registration Fees* – These are the fees charged to register pesticides distributed, sold, or offered for sale within the State of North Carolina. The Department reported pesticide registration fees collected during our audit period of approximately \$1 million. We examined internal control designed to ensure that the Department's collection process is in accordance with applicable state laws and regulations and the revenues are properly accounted for and reported.

## **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

## AUDIT FINDINGS AND RESPONSES

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### 1. INADEQUATE SEGREGATION OF DUTIES

The Pesticide Section of the Department of Agriculture and Consumer Services did not adequately segregate duties over collecting, processing, and depositing checks for pesticide product registration fees. This increases the risk that an error or misappropriation could occur and not be detected.

During our audit, we noted the following:

- Checks are not logged by the person who opens the mail. As a result, control over receipts is not established immediately.
- The checks and registration forms are passed to a processing technician for review. The processing technician also is responsible for notifying companies that have not filed and paid. Consequently, loss or misappropriation of a check could be concealed by not notifying the company about lack of payment. Without the company complaining that they have already paid, the loss or misappropriation could go undetected.
- The checks and processing forms are then sent to the processing assistant, who logs the checks received and makes the deposit. The processing assistant also has access to the database of companies that have filed registrations and paid. Therefore, checks could be lost or misappropriated and the company's record updated to indicate it no longer owes fees. Once again, since the company would not be notified about lack of payment, the loss or misappropriation could go undetected.

*Recommendation:* The Department should strengthen internal control by segregating duties over collecting, processing, and depositing checks received. For example, if the receptionist who opens the mail logs the checks, someone else makes the deposit, and an independent person reconciles the check log to the amount deposited, any checks logged that were not deposited would be detected. Persons who handle checks should not have access to the registration database or be responsible for notifying companies about not filing, and thus, not be able to conceal lost or misappropriated checks by giving companies credit for paying.

*Agency Response:* The Pesticide Section's product registration team will implement the following changes to strengthen the internal control over funds received.

- The processing technician upon receipt of the checks and registration forms, will run two calculator tapes on the checks received prior to passing the checks onto the processing assistant for deposit. Once the remote deposit is completed electronically, the processing assistant will print out Wachovia's Summary of Deposit report certification and give the report to the processing technician to be verified against the calculator tapes and initialed before sending all deposit information to the Cashier's office downtown.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- The processing technician will not have access to update the product registration database.

### 2. DEPOSITS NOT IN COMPLIANCE WITH STATE REQUIREMENTS

The Department of Agriculture and Consumer Services did not deposit checks received for pesticide product registration fees on a daily basis, as required by *North Carolina General Statute 147-77* and the state cash management plan. In addition to not complying with state law and policy, this practice also increases the risk that the checks will be lost or misappropriated, as well as reducing the State's investment earnings.

During our audit, we tested 59 companies with product registrations and related receipts and found 14 instances when the receipts were not deposited on the day received. The Department uses an automated scanning procedure that allows checks to be deposited immediately. However, we found 14 registration documents and accompanying checks that had been received one day, processed the next day, and the checks deposited 2 to 7 days after receipt. In total, we noted \$11,900 not deposited on the day received.

*Recommendation:* The Department should implement procedures to ensure that all receipts are deposited in accordance with state law and the state cash management plan.

*Agency Response:* The Pesticide Section's product registration team has implemented the following change to strengthen the internal control over daily receipts to ensure complete adherence to general statute, the state's cash management plan and North Carolina Department of Agriculture and Consumer Services (NCDA&CS) cash management plan. A daily deposit time schedule will be developed and all employees will follow this timeline. There will be specific times during the day for scanning checks and making the remote deposits.

### 3. TRAVEL ADVANCES NOT IN COMPLIANCE WITH STATE POLICY

The Department of Agriculture and Consumer Services issued travel advances to employees sooner than is allowed by state and department policy. As a result, cash that could have been invested or otherwise used by the State was not available.

The *North Carolina Budget Manual* and the Department's cash management plan require that employee travel advances be issued no more than five working days before the actual date of departure. We tested a sample of 15 travel advances and found that five, totaling \$2,863, were issued seven to 15 working days prior to the travel departure date.

*Recommendation:* The Department should strengthen internal controls to ensure that travel advances are made in accordance with state and department policies.

*Agency Response:* The accounts payable section implemented the following change to strengthen the internal control over travel advances. The date of travel on the travel advance form has been clarified and the accounting clerk who processes the travel



## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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advance check will use this date as reference for paying and releasing direct deposits to employees no more that 5 days prior to travel.

#### 4. EMPLOYEE TIMESHEETS NOT APPROVED TIMELY

The Department of Agriculture and Consumer Services did not have adequate monitoring procedures in place to ensure that employees' timesheets were reviewed and approved by their supervisors in a timely manner. As a result, the Department is at risk of paying employees incorrectly and not maintaining accurate employee leave records.

The state payroll system pays salaried employees their full monthly pay rate unless their timesheet indicates otherwise. Supervisory personnel are charged with the responsibility to review and approve timesheets to ensure that leave records are accurate and pay is docked when necessary (department policy indicates this should be done weekly). However, a monitoring process was not implemented to ensure that supervisors were consistently reviewing and approving the timesheets timely. After December 2008, the payroll administrator started running reports and noted deficiencies in the approval process. For example, there was a prior month's timesheet that had been approved by the supervisor but the employee had not entered all the expected work hours for the month.

*Recommendation:* The Department should strengthen its internal control monitoring procedures to ensure that employees' working hours are entered and approved on a timely basis.

*Agency Response:* The payroll section implemented the following change to strengthen the internal control over employee timesheets and employee leave balances. In November 2008, BEACON (new state HR/Payroll system) provided agency specific training for the electronic timekeeping system. This additional training gave NCDA&CS payroll staff and the division time administrators a better understanding of the BEACON timekeeping system. At that point NCDA&CS was able to implement the necessary procedures. These procedures included reports to print and research, and monitoring techniques to ensure employee timesheets are entered completely and accurately, approved by the supervisor in a timely manner and that employees' annual leave balances are accurate.

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## **ORDERING INFORMATION**

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