

# **COMPLIANCE AND CONTROL AUDIT REPORT**

**DEPARTMENT OF AGRICULTURE  
Fiscal Year 1995**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
July 1996**

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**DEPARTMENT OF AGRICULTURE**  
**Fiscal Year 1995**

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## **OBTAINING AUDIT INFORMATION**

This audit was conducted by Randy Tongier, Financial-Compliance Audit Manager, and Tom Vittitow, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

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## DEPARTMENT OF AGRICULTURE

### Summary of Legislative Post Audit's Findings


Legislative Post Audit conducted compliance and control audit work at the Department of Agriculture to meet the audit requirements of the Legislative Post Audit Act. This audit addressed compliance with spending restrictions, and covered fiscal year 1995.

**Did the Department of Agriculture establish and follow adequate financial management practices to ensure that it complied with State and federal spending restrictions?** Although most of the Department's practices in this area were adequate, we found two areas where those practices won't ensure that each fund pays only its fair share of costs. Those two areas are salaries and communications costs. As a result, there's a risk the Department overcharged or undercharged some funds without being aware of it. If the Department overcharged any federal grants, the State would have a potential liability to repay those overcharges. We weren't able to check for overcharges because the information needed to do that wasn't available.

In reviewing the Department's practices, we noticed that its fiscal staff was highly decentralized. Each of the Department's operating divisions has one or more fiscal staff positions assigned directly to it. That way of organizing makes it more difficult for the Department to ensure that all transactions are handled in compliance with applicable requirements. It also may not be efficient because it might require more staff than would be needed if fiscal operations were centralized. We noticed that the Department's stated its intention to centralize the fiscal staff in its fiscal year 1997 budget request.

The report recommends that the Department adopt a systematic method for allocating costs to its various funds, including periodic adjustments to any estimates used in the allocations, and seek federal approval of that method. Further, the Department should continue its efforts to consolidate its fiscal staff, and report the results of those efforts to appropriate legislative committees.

We would be happy to discuss this report with legislative committees, individual legislators, or other State officials.



Barbara J. Hinton  
Legislative Post Auditor



## DEPARTMENT OF AGRICULTURE

The Legislative Division of Post Audit has conducted compliance and control audit work at the Department of Agriculture covering fiscal year 1995. Compliance and control audits identify noncompliance with applicable requirements and poor financial management practices. The resulting audit findings may not result in significant program improvements, but they often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Department ensures that restricted moneys are properly used. The audit addresses the following specific questions:

**Did the Department of Agriculture establish and follow adequate financial management practices to ensure that it complied with State and federal spending restrictions?**

To answer this question, we identified standard financial-management practices that would help the Department ensure that it properly spends its own restricted moneys. We then interviewed appropriate Department personnel and reviewed a sample of expenditures to see if the Department's procedures were consistent with those accepted practices. We also looked for evidence of misspending. In addition, we surveyed a sample of Department employees to gather additional information about the effectiveness of the Department's procedures and the potential for misspending.

We found that the Department's current financial-management practices won't ensure that each fund pays only its fair share of salaries and wages and communications costs. As a result, there's risk the Department overcharged some of its funds without being aware of it. If the Department overcharged any federal grant moneys, the State has a potential liability to repay those overcharges. We weren't able to check for overcharges or undercharges because the information needed to do that wasn't available.

In a related area, the Department's assignment of some of its fiscal staff directly to operating divisions makes it more difficult for the Department to ensure compliance with applicable fiscal requirements. In addition, the Department may be able to perform its fiscal operations more efficiently if all fiscal staff were centralized. These and other findings are discussed in the sections that follow.

In conducting this audit work, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

## **Did the Department of Agriculture Establish and Follow Adequate Financial-Management Practices to Ensure That It Complied With State and Federal Spending Restrictions?**

In two areas, the Department's didn't establish and follow adequate financial-management practices to ensure that it complied with State and federal spending restrictions. It charged various funds for salaries and wages based on estimates of the amount of time employees would spend on various activities, without ever making adjustment for the amount of time those employees actually spent. Restrictions on some of those funds, especially federal funds, allow charges for salaries and wages only for time actually spent. Further, the Department charged communications costs—such as telephone bills—to whichever funds had moneys available, rather than charging those costs based on a reasonable allocation plan approved by federal granting agencies. Department records and lack of an established allocation plan wouldn't allow us to readily determine the dollar amounts that may have been overcharged or undercharged as a result of these practices, or which funds were involved. However, if the Department has overcharged federal grant moneys, the State could face a financial liability to repay those overcharges. Finally, the way the Department has organized its fiscal staff makes it difficult to ensure compliance with fiscal requirements, and may not be the most efficient way to operate. These and other findings are discussed in the following sections.

### **In Two Areas, the Department Hasn't Established Adequate Procedures To Ensure That It Complies with State and Federal Spending Restrictions**

The Department of Agriculture spent more than \$20 million during fiscal year 1995. A significant portion of that amount was from moneys that are restricted to a certain use by law or regulation, or are limited to being spent only for an appropriate share of certain costs. These moneys include federal grants that must be repaid if misspent or overcharged.

To comply with restrictions and to limit the State's potential future financial liability, the Department should ensure that these restricted moneys are properly spent. To do this, the Department should have put in place certain financial-management practices. Those practices would include the following:

- identifying any restrictions on the use of its moneys, particularly those restrictions made by law or regulation
- accounting for each type of restricted money separately from other moneys, so that it knows how each type of restricted money is spent
- requiring supervisory oversight to ensure that costs charged to a program actually were incurred by that program
- requiring business office review of expenditure documents to ensure that supervisory oversight has taken place

- checking for consistency between program costs and the funds from which those costs are paid, to identify programs whose costs shouldn't be paid from certain funds
- checking to see that each fund pays only for its fair share of costs, including allocation of joint costs that are shared by several programs or funds so that each program or fund pays only its proper share of those costs

To find out the Department's practices in this area, we interviewed appropriate Department officials, reviewed written procedures, and examined a sample of applicable documents. We found that the Department's practices don't ensure that each restricted fund pays for only its reasonable share of costs. As a result, there's a risk the Department charged some of its funds more than it should have for certain costs.

**The Department didn't ensure that each of its funds paid only that fund's share of salary and communication costs.** Because the Department receives federal grant moneys, it is required to meet federal requirements for charging costs to those grant moneys. Those federal requirements call for charging costs in such a way that each federal grant pays only for its fair share of costs.

In reviewing the Department's procedures for charging costs to its various funds, we saw a risk that the Department could be charging inappropriate amounts for salaries and wages and for communication costs. The specific concerns in each of these areas are as follows:

- *The Department can't be sure that its charges for salaries and wages are proper.* The Department generally charges salaries and wages to its funds, including federal grants, based on estimates of how the applicable employees will spend their time. Although the Department keeps track of how employees actually spend their time, it doesn't use those actual figures to adjust past charges that were based on the estimates. Such adjustments of past charges are necessary to ensure proper charges for salaries and wages. As a result, the Department doesn't know if its charges for salaries and wages are proper. Department records wouldn't allow us readily to identify any overcharges or undercharges made during the period we reviewed. Nevertheless, if there were overcharges, the State could face a financial liability to repay those.
- *The Department also can't be sure that its charges for communications costs are proper.* The Department generally pays for communications costs from whatever fund has moneys available at the time. While there may be a reason for taking this approach on a month-to-month basis, the Department periodically would have to make adjustments to be sure that total charges to each fund are proper. Because the proper amount of communications costs for each fund can't always be directly determined, the Department would have to adopt a reasonable basis for allocating costs—such as in the same proportion as salaries and wages are charged. Further, the Department would have to obtain approval of its allocation plan from its federal granting agencies. That type of approach has been adopted by other State agencies. Without such a plan, the Department may end up charging some funds more than is reasonable for communications costs, and other funds less. Because the Department



had no established plan for determining proper charges, we couldn't identify overcharges or undercharges made during the period we reviewed.

We didn't find any overcharges or undercharges for salaries and wages and for communications costs. However, the documentation available at the Department wouldn't have allowed us to find them if they had existed.

As part of our testwork in this area, we also surveyed a sample of 60 Department employees. That survey asked whether those employees were aware of any spending of restricted moneys for unauthorized purposes. We received responses from 43 employees (72% of those surveyed).

Five (12%) of those responses raised concerns, four of which appeared to be relatively minor in nature. For example, three responses stated that the Department sometimes requests employees to complete some other task while in the process of doing their primary job responsibilities—for example, a request that an employee collect and send samples to the lab while performing his or her regular duties. This seems to be an attempt by the Department to take advantage of an employee's location, and wouldn't result in improper charges if appropriate adjustments were made for time spent on that task. The fifth response raised several concerns. We reviewed those concerns and found that some didn't seem to be problems, others already were addressed by our findings above, and the rest were outside the scope of this audit. We passed these latter concerns along to the Secretary of Agriculture.

### **The Way the Department Has Organized Its Fiscal Staff Makes It Difficult To Ensure Compliance With Requirements And May Not Be the Most Efficient Way to Operate**

The Department of Agriculture's fiscal staff handle accounting, bill paying, budgeting, and other fiscal processes. These staff are somewhat decentralized in that each of the Department's operating divisions has one or more fiscal staff positions assigned to it. These division-level fiscal staff are responsible for processing certain transactions relating to that division's operations—such as preparing paperwork and obtaining division authorizations. The Department's central fiscal staff then further processes those transactions, entering them on the State's central accounting system and the Department's own accounting system. The central staff also deals with Departmentwide fiscal matters, such as the federal indirect cost plan.

While having fiscal staff for each division may be convenient for the operations of those divisions, it makes it more difficult for the Department to ensure that all divisions handle transactions and charge costs to Department funds in compliance with all applicable requirements, such as those mentioned earlier in this report. Non-compliance with those requirements can result in a significant fiscal liability for the State.

That degree of decentralization also can result in having more fiscal staff than might be needed. The organization chart provided to us by the Department shows 24 fiscal staff positions spread throughout the five operating divisions and the central fiscal operation. (The Governor's Budget shows 345 full-time-equivalent employee positions for the entire Department.) Although the organization chart we were given

shows five of the 24 fiscal staff positions to be vacant, it seems that some efficiencies might be gained by centralizing the fiscal staff positions.

In its fiscal year 1997 budget request, the Department indicated its intention to consolidate its fiscal staff. Carrying out this intent should address the above concerns.

### **Recommendation**

1. To address the potential liability for overcharging federal grant moneys, the Department of Agriculture periodically should determine the amounts that should have been charged to each fund for salaries and wages and communications costs, and should adjust actual charges to those funds as needed. In doing so, the Department should adopt a systematic method for allocating communications costs to its various funds, and seek federal approval of this method.
2. To improve the effectiveness and efficiency of its fiscal operations, the Department should carry out its stated intention to centralize its fiscal staff rather than having some of those staff assigned to its operating divisions. In working out the specifics of this action, the Department should do the following:
  - a. review the mission of its fiscal staff, and the duties and responsibilities of each fiscal staff member as they relate to that mission
  - b. look for specific efficiencies that might arise from centralizing fiscal staff, including the possibility of restructuring responsibilities and eliminating positions that have been vacant for some time
  - c. report the results of its review to the Legislative Post Audit Committee, Senate Ways and Means Committee, and House Appropriations Committee by December 1, 1996, as part of the budget and appropriations process.



## **APPENDIX A**

### **Agency Response**

On June 14, we provided a copy of the draft audit report to the Department of Agriculture. The Department's written response is included as this appendix. That response indicates that the audit recommendation regarding charges for salaries and communications costs is the result of new federal requirements. We would like to point out that the new federal requirements generally just provide more detailed guidance for documentation of charges to federal grant moneys; we would have made the same recommendation under the old federal requirements.

STATE OF KANSAS

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KANSAS DEPARTMENT OF AGRICULTURE

Barbara J. Hinton  
Legislative Post Auditor  
Legislative Division of Post Audit  
Mills Building

June 5, 1996

Dear Ms. Hinton,

The Department has reviewed the recommendations made in the report and appreciates this opportunity to respond in writing to the findings and recommendations.

The report makes two recommendations both of which we will agree to implement. The first recommendation concerns how the Department determines its fair share of salary and communications costs. As part of new federal time keeping requirements, the Department implemented additional time sheet record keeping for programs on October 1, 1995. We began a time sheet reporting system for administrative personnel on July 1, 1996. Both actions will provide processes to meet the concerns of the report's findings. It should be noted that the Department already tracks employee hours spent on federal activities as part of our quarterly expenditure reports to the federal agencies. The new processes will provide further detail for the administrative and indirect costs associated with running the federal programs.

The report also recommends that the Department use a reasonable basis in determining what amounts to charge the federal government for communication costs related to administering their programs. Because the time sheets are the most accurate method of determining how much federal activity an employee performs each month, we propose to allocate communication costs in the same proportion that we pay out that employees salary as our reasonable basis.

It should also be noted that the salary and communications accounting recommendations are a result of new federal accounting procedures contained in OMB Circular A-87, which the Department was already in the process of addressing prior to the Post Audit report. Adapting to new regulations and procedures is different from failing to meet standard federal financial management

practices. I agree that our current decentralized fiscal organization makes these practices more difficult to standardize, but I will argue that all of the financial management practices outlined in the findings are currently being performed in this agency.

The second recommendation concerns the effectiveness and efficiency of the Department's fiscal operations, which are currently decentralized. We had identified fiscal consolidation in our FY 1997 budget as one of the Department's objectives in providing more standard and efficient services for the agency. A full consolidation will occur August 1, 1996 and at that time, we will standardize much of the financial management practices outlined in the report findings. The Department agrees that such a consolidation will provide an easier and more efficient approach to manage the expenditure of federal and restricted use funds.

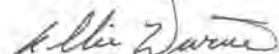
I do not have any objections to any of the findings, of which two; employee time sheets and fiscal consolidation, are already being planned. Developing a reasonable basis for allocating our federal communications costs is the only new initiative recommended, and I will ensure this relatively minor problem be addressed. As a result, I assure the Post Audit Committee we will address their recommendations by the required September 1 deadline.

However, I am concerned about the language contained in the report's findings which states that the Department *may* have fiscal practices that *may* result in overcharging the federal government. The audit found no actual evidence of the Department overcharging federal funds, insinuating that we may have seems inappropriate.

The report's findings that the Department "*didn't establish and follow adequate financial management practices to ensure that it complied with state and federal spending restrictions*" sounds harsh when compared to the relatively mild recommendations made to remedy the problems. I would ask the Committee to review and clarify the language to assure that there is no unintended implications.

My staff and I are available for questions at any time.

Sincerely,



Allie Devine  
Secretary of Agriculture



