

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA



PROCEDURAL REPORT
ISSUED JANUARY 4, 2012

**LOUISIANA LEGISLATIVE AUDITOR
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BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.11. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3280 or Report ID No. 80100031 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

EXECUTIVE SUMMARY

Our procedures at the Louisiana Department of Agriculture and Forestry (LDAF) for the period July 1, 2009, through June 30, 2011, disclosed the following:

- LDAF did not expend all of its Forestry Productivity Program (Program) Fund monies on Program activities. LDAF should have \$4,276,529 in available funds for the Program, but only \$947,837, which was repaid to the Program by the current LDAF administration, remains available for expenditure in the Program Fund. Because the LDAF's operating funds were commingled with Program monies, the use of Program monies totaling \$3,328,692, which are attributable to the prior LDAF administration, cannot be determined.
- For the second consecutive period, LDAF does not have an effective internal audit function. No internal audits were performed during fiscal years 2010 and 2011. The internal audit position became vacant on November 29, 2010. LDAF filled the position effective October 17, 2011.
- Other than the findings previously noted, no significant control deficiencies, errors, or noncompliance relating to cash in bank accounts, movable property, federal and self-generated revenues and receivables, intrafund transfers, payroll expenditures, certain nonpayroll expenditures, including professional services, statutory dedicated funds, and the Public Bid Law were identified.
- No significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget Circular A-133 for the Food Donation (CFDA 10.550) federal program for the fiscal year ended June 30, 2010, and the American Recovery and Reinvestment Act, State Fiscal Stabilization Fund (ARRA - CFDA 84.397) for the fiscal years 2010 and 2011, were identified.

This report is a public report and has been distributed to state officials. We appreciate LDAF's assistance in the successful completion of our work.

Mission and Vision

LDAF's mission is to promote, protect, and advance agriculture and forestry and soil and water resources. LDAF's vision is to be a unified and coordinated team that effectively responds to the challenges facing the agricultural and forestry industries, and which pursues each and every opportunity that might provide a benefit to the state and its citizens.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 5, 2011

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Louisiana Department of Agriculture and Forestry (LDAF) for the period from July 1, 2009, through June 30, 2011.

- Our auditors obtained and documented a basic understanding of LDAF's operations and system of internal controls, including internal controls over major federal award programs administered by LDAF, through inquiry, observation, and review of its policies and procedures documentation, including a review of the related laws and regulations applicable to LDAF.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using LDAF's annual fiscal reports and/or system-generated reports and obtained explanations from LDAF management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior report on LDAF, dated July 23, 2010, we reported findings related to an ineffective internal audit function and noncompliance with record retention policy. The finding related to noncompliance with record retention policy has been resolved by management. The finding related to an ineffective internal audit function is addressed again in this report.
- Based on the documentation of LDAF's controls and our understanding of related laws and regulations, procedures were performed on selected controls and transactions relating to cash in bank accounts, movable property, federal and self-generated revenues and receivables, intrafund transfers, payroll expenditures, and nonpayroll expenditures, including professional services, statutory dedicated funds, and compliance with the Public Bid Law.

- Our auditors performed internal control and compliance testing, in accordance with Office of Management and Budget (OMB) Circular A-133, on the Food Donation (CFDA 10.550) federal program for the fiscal year ended June 30, 2010, and for the American Recovery and Reinvestment Act, State Fiscal Stabilization Fund (ARRA - CFDA 84.397) for the fiscal years 2010 and 2011 as a part of the Single Audit for the State of Louisiana.

Based on the application of these procedures, we have reported findings relating to noncompliance with Louisiana laws governing the Forestry Productivity Program Fund and an ineffective internal audit function. We found no other significant control deficiencies, errors, or noncompliance relating to our analytical procedures or our other procedures, including our procedures on federal programs, that should be communicated to management.

The following significant findings are included in this report for management's consideration:

Noncompliance With Louisiana Laws Governing the Forestry Productivity Program Fund

LDAF did not expend all of its Forestry Productivity Program (Program) Fund monies on allowable Program activities. The department should have \$4,276,529 in available funds for the Program, but only \$947,837, which was repaid to the Program by the current LDAF administration, remains available for expenditure in the Program Fund. An additional \$2,681,575 remains unwarranted and is on deposit with the State Treasury. From fiscal years 1999 to 2011, the department can identify \$33,307,122 in Program expenditures and transfers from the total Program revenues warranted totaling \$37,583,651. The remaining funds were either expended on other departmental expenditures or withdrawn by the State Treasury. Because the department's operating funds were commingled, the use of Program monies totaling \$3,328,692, which are attributable to the prior LDAF administration, cannot be determined.

In a November 8, 2010, meeting, the LDAF commissioner brought to our attention his concerns regarding potential overdrafts from the Fund. At that time, LDAF identified draws from the Fund totaling \$4,240,023 that appeared to have been spent on LDAF's general operations rather than on Program activities permitted by Louisiana laws. Using Program monies for other departmental expenditures results in noncompliance with Louisiana Revised Statute (R.S.) 3:4411-4416 designated for the reforestation of forest lands in the state. LDAF may use a maximum of 10% of the monies available annually in the Fund for administration and technical assistance for the Program. We reviewed the Fund's activity from its inception in fiscal year 1999 through June 30, 2011.

Beginning with the fiscal year ended June 30, 2011, LDAF separated money in the Fund from its operating account by establishing a separate agency fund to account for the Fund's activities. Before that period, operating monies of the department were commingled. Through the fiscal year ended June 30, 2010, LDAF drew money from the Fund by warrant and deposited the money in LDAF's operating account. LDAF stated that money from the Fund was not segregated from LDAF's cash available for expenditure on its operations because LDAF had not been authorized by Louisiana's State Treasury to establish a separate treasury fund for its statutory dedicated funds.

From fiscal 1999 through fiscal 2010, the State Treasury reduced LDAF's budget and drew funds from LDAF's operating account as follows:

<u>Date</u>	<u>Fiscal Year</u>	<u>Amount</u>
March 5, 2009	2009	\$2,700,000
March 10, 2009	2009	50,656
March 10, 2009	2009	17,705
May 17, 2010	2010	1,554,442
July 30, 2010	2010	<u>162,337</u>
Total drawn by State Treasury		<u><u>\$4,485,140</u></u>

We cannot determine the extent to which program funds are included in the amounts taken from LDAF by the State Treasury as a result of budget cuts because the Program funds were commingled with LDAF's operating funds; however, the amounts drawn by the State Treasury may have included Program funds.

Failure to adequately segregate statutorily dedicated monies from its operating account increased the risk of noncompliance with Louisiana laws resulting in fewer dollars available to landowners for reforestation projects. LDAF has a potential liability totaling \$3,328,692 for amounts potentially spent on its general operations by the department's prior administration and which are not allowed by the revised statutes.

Management should determine if all or a portion of the \$3,328,692 potentially spent on LDAF's operations should be repaid to the Program Fund from operating funds. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Ineffective Internal Audit Function

For the second consecutive engagement, LDAF does not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate policies and procedures that comprise controls.

Our review of LDAF disclosed that the department had an internal auditor during fiscal year 2010; however, no internal audits were performed. In addition, no internal audits were performed during fiscal year 2011. The internal auditor transferred to an accounting position effective November 29, 2010, and LDAF had no internal auditor for the remainder of fiscal year 2011. LDAF filled the internal audit position effective October 17, 2011.

Considering the department's revenues of \$90,055,180 and \$76,164,860 for fiscal years 2010 and 2011, respectively, an effective internal audit function is needed to provide management with assurances that the department's assets are properly safeguarded; internal controls are established and operating in accordance with applicable laws and regulations; and internal controls are sufficient to prevent or detect errors and/or fraud in a timely manner.

Management should take the necessary steps to ensure that an effective internal audit function is established and maintained to (1) examine, evaluate, and report on its internal controls, including information systems; (2) safeguard the department's assets; (3) ensure internal controls are established and operating in accordance with applicable laws and regulations; and (4) ensure internal controls are sufficient to prevent or detect errors and/or fraud in a timely manner. Management concurred with the finding and provided a corrective action plan. (see Appendix A, page 3).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LDAF. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of LDAF should be considered in reaching decisions on courses of action. The finding relating to LDAF's compliance with applicable laws and regulations should be addressed immediately by management.

While we did not perform an audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we did perform certain procedures related to compliance with federal laws and regulations in accordance with those standards. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

The Annual Fiscal Reports of LDAF were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. LDAF's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

This report is intended for the information and use of LDAF and its management and the Louisiana Legislature. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first name being the most prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CLM:CGEW:EFS:THC:dl

LDAF 2011

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY
MIKE STRAIN D.V.M.
COMMISSIONER



November 15, 2011

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Purpera:

Re: Noncompliance with Louisiana Laws Governing the
Forestry Productivity Program Fund

The Louisiana Department of Agriculture and Forestry is in receipt of the reportable audit finding pursuant to your letter dated November 7, 2011.

The department concurs with the finding that Forestry Productivity Program (Program) Funds in the amount of \$3,328,692, attributable to the prior administration, were not made available to the Program. The department further concurs that the extent to which funds were either expended on department operations or withdrawn by the treasury cannot be determined.

Prior to this finding, the department recognized issues with the operation and financial accounting for statutory dedicated programs and took comprehensive measures to increase efficiency and accountability as follows:

- (1) July 2008: Beginning with the fiscal year that began July 1, 2008, the department began to execute warrants on dedicated funds only to the extent that bona fide expenditures existed for an activity. It appears that, under the prior administration, the department executed warrants up to the amount appropriated regardless of the amount of expenditures that may have been associated with Program activities. This internal control measure was taken to mitigate the potential to overdraw expenses on statutorily dedicated programs.
- (2) December 2009: At the request of the department, a separate budget unit was created by the Division of Administration for agriculture and forestry pass-through funds. Beginning with the fiscal year that began July 1, 2010, the legislature began appropriating these funds through Schedule 20-941 in the general appropriation act to separate, to the extent possible, department operating funds from those funds that pass-through the department to other entities.

Mr. Daryl G. Purpera, CPA, CFE
November 15, 2011
Page 2 of 2

- (3) July 2010: The Program was suspended for one year to allow severance tax collections to accumulate, so that applications could be approved on a cash positive basis. Prior to suspension of the Program, applications were approved based on estimated severance tax collections. This often caused a greater number of approved applications, or funding commitments, than available funding. The Program now approves applications for reimbursement based on prior year collections eliminating the potential for over-committing resources.

All of these measures were taken to strengthen internal controls and improve accountability for taxpayer funds administered by the department.

While it cannot be determined the extent to which prior term Program funds were expended on operations or withdrawn by the treasury, the department recognizes that the Program is a vital component of the state's efforts in sustaining forested lands. The department intends to ensure that the amount of \$3,328,692 is reinvested into the Program, as appropriate funding sources become available. These efforts may include, but are not limited to, any annual savings that may be achieved from operating efficiencies or a direct legislative appropriation.

The efforts of your staff in working with the department toward these goals are greatly appreciated.

If I can be of further assistance, please do not hesitate to call me. Thank you.

Sincerely,



Craig Gannuch
Assistant Commissioner for
Management and Finance

- c: Dr. Mike Strain, Commissioner
Dr. Brent Robbins, Deputy Commissioner
Mr. Kevin Finley, Internal Auditor
Mr. Wade Dubea, State Forester
Ms. Epney Brasher, Deputy State Forester



LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY
MIKE STRAIN D.V.M.
COMMISSIONER



September 27, 2011

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Purpera:

Re: FY11 Audit Finding - Ineffective Internal Audit Function

The Louisiana Department of Agriculture and Forestry is in receipt of the above referenced reportable audit finding pursuant to your letter dated September 14, 2011. The department concurs with the finding that it does not have an effective internal audit function.

Both significant budget constraints and a reallocation of human resources within the department have limited the ability of the department to fill the internal audit function. Following Department of State Civil Service procedure, the department did advertise and recruit for this position beginning in May 2011. A limited response to the announcement caused the department to extend the announcement on several occasions. The department did have one applicant accept but later decline the position, further delaying the hiring process.

Again, following Department of State Civil Service procedure, our latest announcement recently closed and the department intends to fill this position in the near future.

If you have any questions in this regard, please do not hesitate to contact me.
Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Gannuch".

Craig Gannuch
Assistant Commissioner for
Management and Finance

c: Dr. Mike Strain, Commissioner
Dr. Brent Robbins, Deputy Commissioner