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**State of New Jersey  
Department of Agriculture**

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**Audit Report**

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The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Agriculture for the period July 1, 1995 to January 31, 1997.

If you would like a personal briefing, please call me at (609) 292-3700.

Peter M. Guilfoyle  
Assistant State Auditor  
March 27, 1997

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## Department of Agriculture

### *Scope*

We have completed an audit of the Department of Agriculture for the period July 1, 1995 to January 31, 1997. Our audit included financial activities accounted for in the state's General Fund and the following special revenue funds: the 1995 Farmland Preservation Fund, the 1992 Farmland Preservation Fund, the 1989 Farmland Preservation Fund, and the Farmland Preservation Fund.

Total expenditures of the agency during the nineteen month audit period were \$61.7 million. The prime responsibility of the Department of Agriculture is to protect, develop, promote, conserve and support the agricultural and agribusiness industry of the state. Revenues of the agency totaled \$15.5 million during our audit period. The major components of revenue included the following: the Sire Stakes Program, the United States Department of Agriculture Commodity Distribution Program, and the Emergency Food Assistance Program.

### *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### *Methodology*

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency person-

nel to obtain an understanding of programs and internal

controls.

## *Conclusions*

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal controls and compliance attributes. Large dollar transactions were examined. Other transactions were randomly and judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report, except for Production Efficiency Incentive Grant project changes not approved by the Division of Rural Resources. This issue has been updated and restated in our current report.

Details of our findings and recommendations follow.

**S**egregation of duties should be enhanced for processing of payment transactions.

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## **Payment Transaction Processing/Segregation of Duties**

Treasury Circular Letter 95-11-OMB states, in part, that in order to maintain three levels of approval for transactions processed through the New Jersey Comprehensive Financial System (NJCFS), an Office of Management and Budget exemption must be obtained. "Any person who is granted this exemption to apply three levels of approval to a transaction will not be allowed to enter or change that transaction." Three Division of Administration employees have enter/change capabilities, as well as the three NJCFS levels of approval. Although it is the division's policy that

whoever inputs a transaction does not approve it, the division does not have a control to monitor segregation of duties. A weakness exists in that employees could enter and approve transactions for payment without supervisory review.

Individuals with the Management Acquisition Control System - Enhanced (MACS-E) "P-byte" capability in combination with third level approval capability in the NJCFS "MACB" security group can process a requisition and purchase order and initiate the payment action in NJCFS. Five individuals have the "P byte" capability and third level approval in the "MACB" security group. Because the division does not have controls

to assure segregation of duties, a weakness exists in that a transaction for payment could be processed without supervisory review. Our testing indicated that financial transactions were recorded properly in the accounting systems.

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***Recommendation***

Management should change the NJCFS and MACS-E security configurations to enhance segregation of duties.

**Production Efficiency Incentive Grant  
Close-out Controls**

**P**roduction Efficiency Incentive Grant provisions should be enforced.

In fiscal year 1996, the Division of Rural Resources awarded Production Efficiency Incentive Grants of \$4.4 million. A requirement of the program stipulates that “grants may only be applied to the direct costs of an approved project.” A recipient that did not comply with the provisions of a grant will not be eligible to receive the following year’s grant. Our test of close-out procedures of fiscal year 1995 Production Efficiency Incentive Grant awards revealed changes to projects without approval, resulting in \$22,700 of unallowable expenditures. Agency personnel reviewing close-out documentation did not follow procedures.

***Recommendation***

The Division of Rural Resources should follow close-out procedures and seek recovery of unallowable expenditures.

**Treasury Circular Letter Compliance  
and Insurance Valuation**

Treasury Circular Letter 94-05 requires agencies to annually report their fixed asset inventory valuation to the Department of the Treasury, Bureau of Risk Management. The agency’s inventory of \$3.5 million on file with Risk Management was overstated by \$1.4 million. The agency’s failure to monitor and coordinate fixed asset inventory records has re-

**F**ixed assets were overinsured.

sulted in the agency’s fixed assets being insured in excess of their value.

***Recommendation***

The Department of Agriculture should maintain their fixed asset records in accordance with the circular letter and annually report to the Bureau of Risk Management.

## State of New Jersey

DEPARTMENT OF AGRICULTURE  
HEALTH/AGRICULTURE BUILDING  
JOHN FITCH PLAZA  
CN-330  
TRENTON NJ 08625-0330

CHRISTINE TODD WHITMAN  
Governor

ARTHUR R. BROWN, JR.  
Secretary

### DEPARTMENTAL RESPONSE

March 19, 1997

TO: Richard L. Fair  
State Auditor

FROM: Arthur R. Brown, Jr.

SUBJECT: **AUDIT REPORT - NJDA**

AB

Thank you for providing me a copy of the Audit Report of the Department of Agriculture for the period July 1, 1995 - January 31, 1997.

We have reviewed this Report and would like to make some comments.

These are as follows:

**Finding #1: Segregation of duties should be enhanced for processing of payment transactions.**

**Recommendation:**

Management should change the NJCFS and MACS-E security configurations to enhance segregation of duties.

**Response:**

The Department agrees with the recommendation. While the audit found that no instance of a transaction was approved by the same employee who inputted it, the Department does recognize the internal control weakness this poses. Therefore, segregation of these duties will be enhanced.

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**Finding #2: Production Efficiency Incentive Grant provisions should be enforced.**

**Recommendation:**

The Division of Rural Resources should follow close out procedures and seek recovery of unallowable expenditures.

**Response:**

The Department agrees with this finding. While the audit did point out that grant close out procedures were not correctly followed in two of the cases tested, the Department believes that approval was given to these grantees authorizing them to change aspects of their grant projects. However, a written record of these two change approvals was not placed in the respective grantee's file. Nevertheless, the Department recognizes the need to revise its grant close out procedures to ensure that adequate documentation exists and will therefore make the necessary adjustments to accomplish this.

**Finding #3: Fixed assets were overinsured.**

**Recommendation:**

The Department of Agriculture should maintain their fixed asset records in accordance with the circular letter and annually report to the Bureau of Risk Management.

**Response:**

The Department disagrees with this finding.

The Department conducts its annual inventory review and reports this valuation to the Bureau of Risk Management. In valuing its inventory, the Department uses purchase price to determine insured value. This is the value reported to the Bureau of Risk Management. Risk Management, on the other hand, because of the manner in which the state is insured, uses replacement value to determine inventory value. Thus, there will always be an inherent difference in fixed asset insured value. The Bureau of Risk Management has assured the Department that its fixed assets are not overinsured but rather are insured in an amount to allow their replacement should a loss occur.