

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

December 8, 2006

**TO: TERRY PEACH, COMMISSIONER, AND BOARD MEMBERS OF OKLAHOMA
DEPARTMENT OF AGRICULTURE, FOOD AND FORESTRY**

With this letter, we transmit the report of the Oklahoma Department of Agriculture, Food and Forestry purchase card program audit for state fiscal year 2005.

We performed our audit in accordance with professional auditing standards to ensure that programs administered by the Department of Central Services are conducted in accordance with the laws and regulations and used in an ethical, effective and efficient manner.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Department of Central Services website, www.dcs.ok.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Richard".

John S. Richard
Director of the Department of Central Services

"Committed to Quality"

OKLAHOMA

Department of Central Services Audit Unit



DEPARTMENT OF AGRICULTURE, FOOD AND FORESTRY

PURCHASE CARD AUDIT

For the period of July 1, 2004 thru June 30, 2005

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Department of Agriculture, Food and Forestry, hereinafter referred to as the "Agency", purchase card program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program;
- determine the relative cost benefits the purchase card program had on the agency;
- make recommendations for improvements.

This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

The State Board of Agriculture was created in 1907 by the Oklahoma Constitution. Mr. J.P. Conners was elected as the first President of the Board of Agriculture in the same year. From 1909 until 1949 the President of the Board of Agriculture was an elected office. Currently the Board of Agriculture is a five member board appointed by the Governor. The Board then elects its own President. The Forestry Division was appointed to the Board of Agriculture in 1959 where it remains to this day. In 1964 the Animal Damage Control division was moved from the Wildlife Department to the Department of Agriculture. The Department of Agriculture, Food & Forestry is primarily a regulatory agency, but has also branched out into services such as crop reports, marketing reports and assistance and predator control, as well as market expansion and other areas.

AGENCY

The Agency is made up of 408 classified and 109 unclassified and 43 temporary employees as of September 1, 2005. At the time of the audit, there were 125 purchase cardholders in the Agency.

Board Members:

Terry Peach- Commissioner and Secretary of Agriculture
Don E. Britton
Jimmie Draper
David Holcombe
Bruce Price

Key Staff:

Terry Peach- Commissioner
Lynn Davis- Assistant Commissioner
Jeannette Limke- Comptroller/Finance Officer

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Department an estimated net savings of \$5,781.52 during state fiscal year 2005. This is 2% ($\$5,781.52 / \$347,469.92$ total expenditures) of the total dollars expended using the purchase card. A majority of the savings was contributable to the rebate received.

Questioned Cost - We noted a questioned cost in the amount of [\\$1,417.72](#) for insufficient supporting documentation. We also noted unrecorded inventory items totaling [\\$6,563.34](#).

Audit Finding Summary

(Error rates are based on transactions and memo statements reviewed.)

- The Agency could not provide a list of designated approving officials for state fiscal year 2005. [Finding 05-040-04](#)
- 6 of 41 (15%) approving officials had not attended the mandatory Department of Central Services (DCS) purchase card training prior to assuming their duties and responsibilities. [Finding 05-040-04](#)
- All 41 Approving Officials (100%) for the Agency had not completed the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and responsibilities as Approving Officials. [Finding 05-040-04](#)
- An Executive Assistant was performing the review of cardholder's reconciliation for the approving official. After the review was completed, the approving official signed the memo statement. [Finding 05-040-04](#)
- 50 of 96 memo statements (52%) did not have the cardholder's reconciliation approved by an approving official that was one level above the cardholder's position. [Finding 05-040-04](#)
- 3 of 47 memo statements (16%) where the approving official did not sign and date the memo statement indicating concurrence with the cardholder's reconciliation. [Finding 05-040-04](#)
- One of nine (11%) separated cardholder's cards was not immediately closed. None of the nine cardholder accounts were locked in the purchase card system preventing unauthorized access to the accounts by the separated cardholders. [Finding 05-040-05](#)
- 6 tangible assets totaling \$6,563.34 were not inventoried. [Finding 05-040-06](#)
- 6 of 96 memo statements (6%) did not reconcile to the transaction log. [Finding 05-040-03](#)

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- 5 of 138 purchase card transactions in the amount of \$1,417.72 (2.7%) were not supported by a detailed receipt. [Finding 05-040-08](#)
- The Agency purchase card administrator was unsure of the record retention requirements for the purchase card program. [Finding 05-040-07](#)
- The Agency had not updated their internal purchasing procedures to include purchase card procedures. [Finding 05-040-01](#)

Audit Finding Details

Findings and recommendations are reported based on audit significance.

Finding No: [05-040-04](#): Approving Officials

Criteria: The State of Oklahoma Purchase Card Procedures § 3.6, **State Entity Approving Official**, states, “One or more agency staff members designated by the State Entity P/Card Administrator to review and approve cardholder transactions.”

The State of Oklahoma Purchase Card Procedures § 3.9, **Training** states in part, “Entity P/Card Administrators and designated backups, Authorized Signers, Approving Officials, and Cardholders must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued p/cards.”

The State of Oklahoma Purchase Card Procedures § 3.10, **Purchase Card Employee Agreement** states in part, “Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must sign the State of Oklahoma Purchase Card Employee Agreement from prior to assuming their duties and being issued p/cards.”

The State of Oklahoma Purchase Card Procedures § 6.9.2, **Entity approving official(s) responsibility** states in part:

State Entity Approving Official(s) shall review the regular p/card, Statewide p/card, or the Travel p/card holder’s reconciled memo statement and supporting documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State Statutes, rules, state purchase card procedures, and sound business practices...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement ...

The State of Oklahoma Purchase Card Procedures § 6.9.1, **Cardholder responsibility** states in part, “The memo statement shall be reconciled by the cardholder and submitted to the cardholder’s designated State Entity Approving Official” and “All cardholders (including Entity

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P/card Administrators and Approving for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.”

Condition: During our review of internal controls related to approving official's duties and responsibilities, the following was noted:

1. The Agency could not provide a list of designated approving officials for state fiscal year 2005.
2. 6 of 41 (15%) approving officials had not attended the mandatory Department of Central Services (DCS) purchase card training prior to assuming their duties and responsibilities. Since our finding, four of these individuals have attended mandatory DCS purchase card training.
3. All 41 Approving Officials (100%) for the Agency had not completed the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and responsibilities as Approving Officials.
4. When reviewing the cardholder's reconciliation review process, we noted an Executive Assistant performing the review of cardholder's reconciliation for the approving official. After the review is completed, he (approving official) signs the memo statement.

During our review of substantive testwork, we statistically selected 138 purchase card transactions totaling \$53,327.96 for review out of 1,834 purchase card transaction totaling \$347,469.82. During our substantive testwork, we noted:

5. 50 of 96 memo statements (52%) did not have the cardholder's reconciliation approved by an approving official that was one level above the cardholder's position.
6. 3 of 47 memo statements (16%) where the approving official did not sign and date the memo statement indicating concurrence with the cardholder's reconciliation.

Cause: A majority of the approving officials were not adequately documented, trained, traced or monitored during the audit period. The Agency may have also relied on an Agreed-Upon Procedures Audit performed for the period July 1, 2004 through December 31, 2005. Two of the procedures were to compare, "Department's internal control over purchase cards with the following criteria:

- o ...Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form;
- o Cardholders submitted monthly transaction logs with supporting documentation which were reviewed and approved by the appropriate personnel;...

No findings were noted during this audit, for the procedures stated.

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Effect: By not documenting the individuals appointed as designated approving officials, ensuring individuals attend purchase card training and completing a Purchase Card Employee Agreement form, the opportunity exists for approving officials to assume duties without adequate understanding of their duties and responsibilities as an approving official. This lack of understanding could also create an opportunity for prohibited purchases to occur and go undetected.

If the approving official is not at least one level higher than the cardholder within the organizational structure of the Agency, the cardholder could have improper influence and actual authority over the approving official. As a result, the cardholder could skew the approving official's decision making process and increase the risk for transactions to be unauthorized, unsupported, or unallowable without being detected. In addition, disputes or unresolved issues may not be properly resolved by the approving official. Thus, controls in relation to the proper review and approval process of purchase card expenditures and monthly reconciliations could be weakened.

Recommendation: We recommend the Agency create and implement a process to track and monitor designated approving officials. This process may include maintaining a list of approving officials that have met all the requirements. This process should include documentation by the Purchase Card Administrator of approving officials and the scheduling and attendance of purchase card training by participants in the purchase card program. We further recommend this process ensures the Purchase Card Employee Agreement form is signed and completed by the purchase card program participants. The Agency's control system should adequately determine if the approving official has met all the requirements before continuing or assuming their duties and responsibilities.

We recommend all current approving officials or individuals acting as approving officials who have not yet attended the purchase card procedures training should be provided the training prior to continuing their duties as approving officials.

We recommend the approving officials that are lower in the organization than the cardholder be replaced by an approving official at least one level higher than the cardholder within the organization. We further recommend the Purchase Card Administrator or assignee to regularly review the agency's organizational chart to make certain that approving officials are at least one level higher than cardholders whose statements they review and approve. This could be included as part of the process for evaluating and assigning new approving officials.

In final, we recommend the Agency inform all approving officials of their duties and responsibilities as an approving official. This process may include counseling or retraining by DCS.

Management's Response

Date: 12/04/06

Response: Concur - At the time of the audit, the agency p-card administrator did not understand the requirement that all approving officers attend training and sign the Purchase Card Employee Agreement form.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: Since the time of the audit, the agency p-card administrator has been replaced and we have verified through the State P-card Administrator which of our approving officers had not attended training and had not completed the Purchase Card Employee Agreement form. All have now attended training and signed an agreement form. We now have a complete list of all cardholders and who their designated approving officer is. The divisions were notified that the Approving Officers need to be one level above the cardholder according to the organization chart. This list is maintained and up-to-date.

Finding No: [05-040-05](#): Terminations

Criteria: State Purchase Card Procedures § 6.10, **Card security**, states in part, “State entities shall establish an internal procedure to ensure that a p/card held by a terminated employee is promptly provided to the State Entity P/Card Administrator.”

United States General Accounting Office’s Internal Control Standards, states in part, “Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution as well as appropriate documentation.”

Condition: The date the cardholder separated employment with the Agency was compared to the date the cardholder’s account was closed. A total of nine separated cardholder’s accounts were reviewed. One of nine (11%) cards was not immediately closed. The employee was separated from the Agency on February 4, 2005 and the card was not cancelled until February 14, 2005. None of the nine cardholder accounts were locked in the purchase card system preventing unauthorized access to the accounts by the separated cardholders. We have notified the State Purchase Card Administrator to lock these accounts.

Cause: The Agency was unaware the account access should be locked once the account has been closed.

Effect: By not having a process to immediately identify and collect purchase cards from a cardholder separating from the Agency, the purchase cards and account access may not be cancelled in a timely manner. Lack of purchase card controls related to employees separating from the Agency increases risk for improper use and unauthorized access to account information.

Recommendation: We recommend the Agency develop, implement and formally document a procedure for the immediate retrieval of the purchase card from a cardholder who has separated their employment with the Agency. We recommend this procedure to include locking the cardholder’s internet purchase card account access.

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Management's Response

Date: 12/04/06

Response: Concur - A procedure will be developed whereby when an employee terminates from the agency, the p-card administrator will be informed as soon as possible to close the account and lock the cardholder's internet purchase card account access.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: As of this date, each division in the agency will be notified that when an employee terminates from the agency, an e-mail will be sent immediately to the p-card administrator to close the account and lock access to the internet.

The date the account is closed and locked will be documented on the P-card master list be the p-card administrator and the e-mail will be attached to the Purchase Card Employee Agreement form on file.

Auditors Response: All cardholder accounts noted in the finding have been locked by the State Purchase Card Administrator.

Finding No: [05-040-06](#): Inventory

Criteria: State of Oklahoma Purchase Card Procedures § 5.6 **Inventory** states, "State entities shall establish procedures to ensure that items acquired using the p/card and exceeding \$500 in cost, or a different amount if approved by the Director of Central Purchasing, are added to the inventory schedule pursuant to 74 O.S. § 110.1."

Condition: During the testing of internal controls, we noted three purchase card transactions for goods exceeding \$500 that were not reported on the Agency's inventory schedule. Details are noted below:

<u>Date Acquired</u>	<u>Last 4 digits of card</u>	<u>Item</u>	<u>Acquisition Cost</u>
08/26/2004	3706	Wire Welder	\$1,699.00
05/06/2005	8368	Refrigerator	\$1,374.99
05/09/2005	7400	Desks (2)	\$1,419.98
		Total	\$4,493.97

During substantive testwork, 138 purchase card transactions totaling \$53,327.96 were statistically sampled to review out of 1834 purchase card transaction totaling \$347,469.82. Based on our testwork, we noted within our sample 3 of 4 (75%) purchase card transactions for goods exceeding \$500 were not reported on the inventory schedule. Details are noted below:

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<u>Date Acquired</u>	<u>Last 4 digits of card</u>	<u>Item</u>	<u>Acquisition Cost</u>
11/18/2004	5248	DVD Recorder	\$ 599.95
06/01/2005	1236	Lab Equipment	\$ 769.42
06/09/2005	8368	GMC Canyon Truck Bed	\$ 700.00
		Total	<u>\$2,069.37</u>

A total error rate of 86% (6 errors / 7 tangible assets purchases totaling [\\$6,563.34](#)) was noted.

Cause: The process in place to ensure inventory is properly recorded is not operating effectively. Also, the Agency does not independently review purchase card transactions to verify cardholders are properly communicating they have purchased a tangible asset above \$500.

Effect: By not consistently reporting inventory purchases exceeding \$500, inventory cannot be properly tracked, the total value of inventory is understated, and the Agency does not have an accurate reporting of assets owned.

Recommendation: We recommend the Agency to locate, report and properly tag the tangible assets noted in the condition and to perform a review of other acquisitions that are similar to determine the completeness of the inventory schedule.

We also recommend the Agency examine and evaluate the process in place to properly record inventoriable items to identify breakdowns in the process. Breakdowns identified should be modified and updated to ensure the accurate recording and reporting of tangible assets exceeding \$500.00. In final, we recommend the agency to communicate the evaluated process to the effect.

Management's Response

Date: 12/04/06

Response: Concur – The Department of Agriculture, Food, and Forestry is reviewing the procedures and will take the necessary action to comply.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: The Department of Agriculture, Food, and Forestry will advise all divisions and cardholders of the policy and will develop procedures to assure that all items over \$500 will be placed on inventory.

Auditors Response: All items noted in the finding were located, reported and tagged by the Agency.

Finding No: [05-040-03](#): Reconciliation

Criteria: Oklahoma Purchase Card Procedures § 6.9.1, **Cardholder responsibility** states in part,

“The memo statement shall be reconciled by the cardholder and submitted to the cardholders’ designated State Entity Approving Official. After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log indicating the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying the transaction log and the memo statement have been reconciled.”

Condition: During our testwork, 96 memo statements were reviewed. There were 6 exceptions noted where we could not determine if the cardholder performed a reconciliation of their transaction log to their memo statement. Details are noted below:

1. In five instances (5%), not all purchase card transactions were listed on the cardholder’s transaction log (card numbers ending 1236, 3664, 8200, and 8368).
2. In one instance (1%), transaction log was not completed by the cardholder (8200) for the February 2005 billing cycle causing transactions for the billing cycle to be reported on the transaction log of the March 2005 billing cycle.

Cause: This was an oversight by the cardholder and approving official.

Effect: If reconciliation is not performed between the transaction log and the memo statement, unauthorized charges could go unnoticed on the memo statement.

Recommendation: We recommend the Agency require reconciliation between the transaction log and the memo statement is performed by the cardholder and approved by the Approving Official.

Require all transactions made during a billing cycle to be included on the transaction log for that billing cycle. If the transaction does not show up on the memo statement, then a note should be made on the transaction log next to the transaction that the transaction is carried forward to the next billing cycle.

Management’s Response

Date: 12/04/06

Response: Concur - The P-card Administrator was replaced February, 2006. Since that date, all transaction logs have been verified with the statement by the P-card Administrator.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: All transaction logs are verified to match the cardholder statement by the P-card Administrator. If the log does not match the statement, the log and statement along with receipts are returned to the cardholder for correction.

Finding No: [05-040-08](#): Documentation

Criteria: The State of Oklahoma Purchase Card Procedures § 6.5, **Receipts for purchase**, states in part, “Receipts shall be obtained for purchases. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation or confirmation number should be obtained...”

Condition: We statistically selected 138 purchase card transactions totaling \$53,327.96 for review out of 1,834 purchase card transaction totaling \$347,469.82. During our testwork, we noted the following:

1. 2 of 138 purchase card transactions (1%) in the amount of \$607.89 were not supported by a detailed receipt. These two transactions, however, were supported by a Missing Receipt Form per requirements of the State Purchase Card Procedures.
2. 3 of 138 purchase card transactions (2%) in the amount of \$809.83 were not supported by a detailed receipt. The vendors, however, did not supply detailed receipts for purchases. One of these vendors was Hobby Lobby. Hobby Lobby Creative Centers since have placed cash registers in three of its Oklahoma City stores that provide detailed receipts. This vendor is also testing a new system that would convert all cash registers to provide detailed receipts.

Total cost not supported by a detailed receipt is [\\$1,417.72](#).

Cause: The receipt was not collected and maintained or the vendor did not provide a detailed receipt.

Effect: By not having sufficient receipting documentation for purchases, it is difficult to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid government purposes in accordance with the agency’s mission. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

Recommendation: We recommend the Agency obtain detailed receipts to support all purchases of goods and services. As part of the designated Approving Official’s duties in

reviewing cardholder's reconciliation, the designated Approving Official shall verify that adequate supporting documentation has been obtained for each purchase. If the vendor does not give detailed receipts, we recommend that the cardholder consider another vendor.

Management's Response

Date: 12/04/06

Response: Concur – The Department of Agriculture, Food, and Forestry is reviewing the procedures and will take necessary action to comply.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: The Department of Agriculture, Food, and Forestry does require all cardholders obtain an itemized receipt or an order confirmation. We will be more diligent in auditing the statements and receipts to assure that all information is complete.

Finding No: [05-040-07](#): Record Retention

Criteria: State Purchase Card Procedures § 5.8, **Records retention**, states in part:

State entity p/card records shall be maintained in a central location as referenced in State entity p/card procedures... Records shall be maintained for seven (7) fiscal years, provided all audits have been completed and all applicable audit reports have been accepted and resolved by all federal and state agencies and no legal actions are pending.

Condition: The Agency purchase card administrator was unsure of the record retention requirements for the purchase card program. The administrator did state, "No documents have been destroyed since the inception of the purchase card program."

Cause: Unknown.

Effect: Purchase card documentation may not be maintained for the required amount of time before being destroyed.

Recommendation: We recommend the Agency become familiar with the purchase card record retention requirements.

Management's Response

Date: 12/04/06

Response: Partially Concur - The P-Card Administrator for the agency had just been replaced in February and the auditors arrived in March. The administrator has since reviewed all policies.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: None – all purchase card documentation has been maintained since the beginning of the program.

Finding No: [05-040-01](#): Internal Purchasing Procedures

Criteria: The State of Oklahoma Purchase Card Procedures § 1.6 **Conditions of participation**, states in part, “State entity p/card procedures shall be made a part of their internal purchasing procedures.”

Condition: The Agency has not updated their internal purchasing procedures to include purchase card procedures. Agency last submitted its internal purchasing procedures to the State Purchasing Director on October 4, 1999.

Cause: Agency was not aware State Entity Purchase Card Procedures should be incorporated into Agency’s internal purchasing procedures.

Effect: The Agency’s internal purchasing policies and procedures are not in compliance with the State Purchase Card Procedures.

Recommendation: We recommend the Agency update and submit internal purchasing procedures to the Department of Central Services for approval.

Management’s Response

Date: 12/04/06

Response: Concur - The P-card procedures were to be completed by the purchasing officer for the agency and had not been completed.

Corrective Action Plan

Anticipated Completion Date: 12/04/06

Corrective Action Planned: When we became aware that the procedures had not been completed, the procedures were completed and submitted to the Department of Central Services. The procedures submitted were approved by DCS on July 27, 2006.

OVERALL CONCLUSION

Based on our audit, we have determined that the Department of Agriculture, Food and Forestry has materially complied with the objectives reviewed. However, there were some non-compliances noted during the audit. Some of these non-compliances were related to approving official's duties and responsibilities, terminated cardholders and inventory. The Department of Agriculture, Food and Forestry has stated corrective actions plans which we believe will ensure the Agency, will comply, in all material respects with the aforementioned requirements.