



## Department of Agriculture Plants & Pesticides Audit

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**Audit Period: January through December 2016**

### Results Summary:

<b>Objective</b>	<b>Conclusion</b>
<b>Licensure of Pesticide &amp; Fertilizer dealers, applicators, and products</b>	<b>Improvement Needed</b>
<b>Plant Pest Control section licensure of nurseries and certification of dealers</b>	<b>Improvement Needed</b>
<b>Receipting, recording, and depositing license and certificate fees within the Plant Health Division</b>	<b>Improvement Needed</b>

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

According to the Ohio Department of Agriculture's (AGR) enacted budget and Annual Report, the Plant Health Division houses the Grain Warehouse, Feed & Seed, Pesticide & Fertilizer Regulation, and Plant Pest Control sections, which are responsible for many consumer- and farmer-protections regulations, including inspecting honey bee colonies, controlling the spread of gypsy moths and other pests, testing germination of packaged seeds, verifying label statements on feed and fertilizers, regulating nursery stock, and monitoring the financial stability of grain elevators. AGR is funded through general revenue funds, fees, and licenses charged to those they regulate, and federal funding.

The division's Pesticide & Fertilizer Regulation section licenses pesticide dealers and applicators and offers training and testing sessions throughout the year. The section licenses approximately 30,000 pesticide applicators and more than 16,000 pesticide products. This section also administers the Clean Sweep Program which assists pesticide users with proper disposal of unusable and out-of-date pesticides and is free of charge to farmers.

The division's Plant Pest Control section certifies Ohio's nursery stock producers and dealers by performing inspections to help ensure their proper labeling, viability and freedom from pests and diseases. The section helps facilitate commerce by assisting shippers of plant based commodities with the various federal and state quarantines that restrict the movement of articles capable of harboring targeted pests. The section also provides inspections and phytosanitary certificates for shipments of grain, seed, logs, lumber, greenhouse plants, and other plant based commodities destined for other states or countries.

Annually, the Pesticide & Fertilizer section licenses/registers approximately 500 dealers, 30,000 applicators, and 16,000 products. The Plant Pest Control section issues approximately 5,000 nursery dealers licenses and 1,000 nursery inspection certificates. During the period January through December 2016, the Pesticide & Fertilizer section collected approximately \$4.32 million in fees and the Plant Pest Control section collected approximately \$1.36 million in fees.

In 2015, AGR implemented new fiscal processes to enable timely deposits. Changes included new credit card terminals and the use of check scanning machines.

During the audit, OIA identified opportunities for Department of Agriculture to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Department of Agriculture staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



## Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's licenses and certification processes. This work was completed December 2016 through March 2017. The scope of this audit included the following areas:

Key processes to include:

1. Pesticide & Fertilizer Licenses
2. Plant Pest Control Licenses and Certificates
3. Receipting, Recording, and Depositing of License Fees

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the licensure of Pesticide & Fertilizer dealers, applicators, and products.
- Evaluate the design and effectiveness of controls within the Plant Pest Control section over the licensure of nurseries and certification of dealers.
- Evaluate the design and effectiveness of controls over receipting, recording, and depositing license and certificate fees within the Plant Health Division.

Audit Period: January through December 2016



## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### **Observation 1 – Lack of Segregation of Duties in Plant Pest Control Section**

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent one employee from being assigned incompatible duties. When it is not feasible to segregate incompatible duties, compensating controls, such as detailed supervisory reviews, must exist to timely detect inappropriate activities or errors.

Within the Plant Pest Control section of the Plant Health Division, one employee typically performs all duties related to application and payment processing, including receiving and opening mail containing applications and payments, processing applications and entering payments in the Plant Pest Control (PPC) system, preparing and reconciling deposits to check scanning key capture reports and credit card settlement reports, and performing quarterly reconciliations of deposits to OAKS reports.

Furthermore, the Plant Pest Control section routinely receives cash payments through the mail for apiary fees, which are \$5 annually per apiary and the PPC system is not designed to prevent certificate issuance if a corresponding payment is not entered.

A lack of adequate segregation of duties increases the likelihood for undetected errors, misappropriation of assets, improper application processing, and/or late or missing deposits. Routine receipt of cash and system design weaknesses further increases the impact and likelihood of such risks without timely detection.

#### **Recommendation**

Develop and implement procedures to appropriately segregate incompatible duties. Consider the following:

- Mail should be opened by a separate individual, such as the receptionist. Date stamp



each piece of mail to indicate the date it is received. Record check numbers and check amounts on the associated applications to help facilitate daily payment processing.

- For instances in which cash is received in the mail, two employees must count and record the cash and prepare the deposit. The two employees must evidence by signature and date that the amount of cash received equals the amount of cash deposited.
- Separate individuals should perform the application processing and deposit preparation duties.
- Reconciliations should be performed by an individual other than who has processed the applications and/or prepared the deposit.
- Periodic supervisory reviews of applications processed to ensure accuracy and appropriateness. This could include randomly selecting applications to review or creating exception reports for targeted risk-based reviews. Document results and resolutions of reviews.
- Update the PPC system to ensure that certificates cannot be issued without the correct payment recorded in the system. In the future, consider upgrading to an online payment portal so that payments are not directly handled by the staff and to reduce or eliminate receipt of cash payments through the mail.

### Management Response

All Plant Health mail will be opened by the receptionist and date stamped. Receptionist will record check numbers and check amounts on the associated applications to help facilitate daily payment processing. When cash is received, the receptionist will initial the application for the receipt of cash. A cash log and check total tape (for multiple per batch) will be completed by receptionist and cash will be given to PPC Administrative Professional. The PPC Administrative Professional will initial and date cash log and give to PPC licensing staff. Cash log and application will be initialed and dated by PPC licensing staff during receipt. PPC licensing staff will prepare deposit and the cash log will accompany deposit form to the finance office.

Administrative Professional staff will perform reconciliations by review of deposit forms and matching to payment detail forms from the fiscal office. Administrative Professional staff will review quarterly reconciliation reports from the fiscal office to payment detail forms for quality assurance.

PPC staff and Pesticide/Fertilizer Section will create Quality Assurance review checklists. Quarterly, the PPC Section will randomly select ten dealer and ten nursery applications and Pesticide/Fertilizer Section will randomly select ten commercial applicator and ten pesticide business license cases to review for date stamp and deposit within three days of receipt.

The separation of duties with application processing and deposit preparation duties is not



feasible at this time due to staffing and funding. We recognize this is a need but at this time additional funding would be necessary to hire additional staff. The deposit form is signed by a supervisor before being sent to the fiscal office.

We have evaluated our current PPC licensing system and recognize that there is an extensive need for a new online payment portal. To upgrade to a new online payment portal would require considerable IT resources and additional funding.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Administrative Professional, Plant Health Division	June 2017

## Observation 2 – Security of Sensitive Customer Information and Operational Inefficiencies

To facilitate accurate and efficient administration, processes that are primarily paper-based should be converted to an electronic system. Collecting personal information from customers, including names, addresses and phone numbers, as well as credit card account numbers and banking information is considered collecting sensitive data and presents a risk of fraud. Consequently, an entity should implement controls surrounding the receipt, retention and processing of credit card information and checks. Industry best practice is the Payment Card Industry Data Security Standard (PCI DSS), which is a set of requirements designed to ensure that all companies that process, store, or transmit credit card information maintain a secure environment. Further, entities should assess and address the risks to customers' information in all areas of their operations and implement controls to mitigate risks.

The Department of Agriculture (AGR) Plant Health Division does not have processes to adequately safeguard customers' sensitive data. For example:

- The Division accepts credit card payments from customers for the fees associated with fertilizer, pesticide and nursery (producer and dealer) licenses and certificates. Customers may fax credit card information, including the card number, expiration date, name on card, security code, and billing zip code to a fax machine. The license staff also receives credit card information from customers via the mail, email, and over the phone. Receipt of such information via unencrypted email addresses and/or to an unsecured fax is not in compliance with PCI DSS.
- In the Pesticide and Fertilizer section, front desk staff open the mail and deliver applications with credit card information and checks to license staff who enter card



numbers into point of sale credit card machines. Once the credit card receipt is printed, it is taped over the credit card number and filed in a room that is open during the workday. Once checks are processed, the physical checks are maintained in a safe for 90 days to ensure checks are processed correctly. The section's procedures indicate payment documentation should be shredded after 90 days. However, during a review in February 2017, OIA found checks with dates as old as August 2016 in the safe.

- A nursery staff member routinely leaves checks and cash unsecured on the desk and in the work area during the work day and overnight.

Additionally, the Divisions' application processes are very paper intensive and operationally inefficient. For example:

- All application types use a paper format, which the Division maintains in filing cabinets.
- Division staff manually print and mail reminders and renewal applications for every application type.
- Nursery applicants (dealers and producers) are required to have an inspection, which is completed by a separate AGR division on a paper form. The inspector receives the inspection form from Plant Pest Control licensing staff. Once the inspection is completed, the inspector sends the form back to the licensing staff to assess the fee, which is billed to the nursery customer.
- The nursery Plant Pest Control (PPC) system is not designed to scan applications into the system. Therefore, Plant Pest Control staff members must manually enter every application into the PPC system.

Failure to properly safeguard credit card information, checks, and cash increases the likelihood that sensitive information is lost, stolen or compromised. Just one incident of compromised credit card and banking information can result in a damaged reputation to the AGR and the State of Ohio. Inefficient paper-based processes and operations increase the likelihood for errors and lost items, reduces customer service, and prohibits maximum use of resources.

### Recommendation

As a long-term solution, implement a system or utilize a service provider to enable customers to complete and submit applications and pay fees online with a credit card and/or electronic check to eliminate the need for the AGR or licensing staff to receive, process, and retain sensitive payment information and to reduce or eliminate paper-based operations and manual data entry processes. Explore and assess the viability of leveraging existing self-service databases and online payment functionally used within the agency as well as other state agencies.

As a short-term solution, design and implement controls to sufficiently safeguard sensitive credit card and banking information and improve operational efficiencies. For example:



- Immediately cease the practice of retaining complete credit card information. Securely destroy the credit card portion of the forms containing sensitive data after processing the card number and retain only the credit card receipt that displays the last four digits of the card number as evidence of the transaction.
- Provide customers with an encrypted file-sharing service or secure fax number that will encrypt sensitive data. Update language in applications to direct customers to submit credit card information only through secured channels.
- Periodically review access to the Division to verify it is limited to licensing staff members. Develop and implement protocols and provide training for employees to lock customers' credit card, check, and cash payments while away from desks. Monitor employees' desks to ensure sensitive information is not exposed.

Additionally, consider integrating the nursery application process into the Pesticide & Fertilizer section's Pesticide Regulation System (PRS) to gain automation functionality or enhance the PPC system so that paper applications may be scanned to eliminate or reduce manual data entry.

Avoid physical hand-offs between AGR divisions of forms and other documents, such as the inspection forms. Consider having inspectors electronically complete and save inspection forms to a shared drive or submit forms to licensing staff via email.

Direct applicants via email to obtain applications from the AGR website to reduce the volume of printing and mailing renewal reminders and applications

### Management Response

Due to the substantial volume of approximately 6,000 credit card applications received in the Pesticide/Fertilizer section during peak season, cutting off the bottom of applications and shredding would be operationally inefficient. Forms are currently stored in a locked cabinet after being scanned into the database and will be immediately shredded once the Fiscal office has confirmed the deposit, which typically occurs the following day. Staff consistently communicates with customers that the Plant Health Division does not have a secure server and the importance of not sending credit card information via email and will continue this practice.

Pesticide/Fertilizer staff will update all applications to clearly state not to submit credit card information via email or fax and include a disclaimer notifying applicants that these methods are not secure. The Plant Health Division is currently in the process of working with IT to protect sensitive data by researching secure fax lines.

Starting in July 2017, the Pesticide/Fertilizer section will offer commercial and business license applicants the opportunity to renew licenses online. A third party will securely process online credit card payments. The Pesticide/Fertilizer section will enable online applications and



payment capabilities for its other application types in the near future.

The Plant Health Division will assign licensing staff to shred and destroy checks that are 90 days old on a weekly basis. A weekly schedule will rotate shredding responsibilities between staff members.

All Plant Health staff have a central safe for storage as well as drawers that lock. Plant Health staff members lock up all checks and credit card information if away from desks for extended periods. All checks, credit card information, and checks are locked up overnight. Staff will receive a reminder regarding protecting check, credit card information, and cash.

Additionally, all visitors entering the building are signed in by the receptionist at the front desk. To access the second floor where all checks, cash, and credit card transactions are processed, visitors must swipe a pass to take the elevator to the second floor. Once on the second floor, visitors may not pass the reception area clearly marked “employees only past this point”. There is also yellow tape on the floor indicating not to cross.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Administrative Professional, Plant Health Division	August 2017

### Observation 3 – Timeliness of Deposit

Ohio Administrative Code 113-1-02 requires state entities to deposit fees and moneys to the state treasury within three business days of receipt. The Ohio Department of Agriculture (AGR) has a policy that aligns with this requirement.

The AGR Plant Health Division accepts application fees for various licenses and certificates. However, the Division does not have controls in place to ensure all fees are deposited to the state treasury within three business days of receipt. For example, from a sample of 25 checks that the Pesticide and Fertilizer Regulation section received during the period January through December 2016, three (12%) were not deposited within three days of receipt. Instead, AGR deposited one check four days after receipt and two checks six days after receipt. The three fees totaled \$100.

Within the Plant Pest Control section, the processing staff receives applications and payments and does not typically date stamp applications at the time of receipt. The staff processes applications prior to processing and preparing deposits and may hold applications and fees until all application errors are corrected. Without reliable documentation of fee receipt dates, OIA was unable to test timeliness of deposits for a sample of 25 fees received by the Plant Pest Control



section during the period January through December 2016. The section received fees totaling approximately \$1.36 million during the period.

Failure to consistently document receipt dates prevents management from tracking and monitoring revenues for timely deposit. Not depositing revenues timely can increase the risk of loss, theft, or misplacement of revenues. Furthermore, noncompliance with the timely deposit rule reduces potential interest income to the state.

**Recommendation**

Continue to reinforce the current deposit policy that all payments must be deposited within three business days. Additionally, update the policy to require depositing of all fees, regardless of application accuracy.

Develop and implement procedures to date-stamp all applications upon receipt and ensure all receipts are deposited the next business day. For instance, delegate date stamping applications to the front desk staff for all Plant Health Division sections. Document check numbers on applications to help facilitate timely payment processing.

Identify other causes of deposit processing delays to determine the appropriate corrective action. For example, consider:

- Practicality of using personnel from other AGR departments or Plant Health Division sections to process payments and/or applications during times of peak workload.
- Plant Pest Control system enhancements to allow concurrent entering of deposits and applications.
- Further training on the importance of three day deposit rule and redistribution of work as necessary so the oldest payments received are prioritized for deposit.

**Management Response**

A first in, first out sign is going to be created to prompt licensing staff to deposit timely. All mail will be date stamped on day of receipt. Licensing staff will also be trained on the importance of the three day deposit timeframe. Management will continue to monitor the progress of the three day deposit and is implementing Quality Assurance reviews.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Administrative Professional, Plant Health Division	June 2017



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee