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An Audit Report on
**Agribusiness at the Department of
Criminal Justice**

March 2021
Report No. 21-016



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Overall Conclusion

Texas Government Code, Section 497.112(b), requires the Department of Criminal Justice (Department) to develop and improve its agricultural operations using information from the annual Cost Statement prepared by its Agribusiness, Land and Minerals Division (Agribusiness).

The Department reported that it has largely been successful in managing its agricultural operations, having saved \$160.3 million from calendar years 2014 to 2018 by producing food and fiber items instead of purchasing those products externally. However, the Department's processes for managing its agricultural operations are not comprehensive enough to ensure that these operations are consistently cost-effective. Although the Department reported that most of its agricultural operations were cost-effective from 2014 to 2018, the Department consistently produced a significant number (46 percent) of items that were not cost-effective during that time. The Department should implement processes to identify products that are not cost-effective and make management decisions based on that analysis. In addition, the Department should produce its Cost Statements timely to enable Agribusiness and Laundry, Food and Supply (Food Service) to use this data to determine the following year's purchases.

Most of the audited data in the 2018 Cost Statement was accurate. The Department reported \$92.6 million in sales revenues and \$61.4 million in cost of goods sold and other operating expenses in the calendar year 2018 Cost Statement. However, to reduce the risk of significant errors in future Cost Statements, the Department should improve the design, implementation, and operating effectiveness of some of the key processes it uses to account for its agricultural operations and to create its annual Cost Statement. The 2018 Cost Statement was the most recent cost statement produced at the time of the audit.

Agribusiness Background Information

The Agribusiness, Land and Minerals (Agribusiness) Division of the Department of Criminal Justice (Department) reported that in 2018 it produced food and fiber crops, animals, canned foods, and meat items with a market value of \$90.7 million.

In addition, the Department received \$8.5 million in land revenues from sources such as leases, easements, oil and gas royalties, and grazing fees.

The Department used Agribusiness products to feed a population of 145,019 offenders in 106 prison units during 2018. Agribusiness planned to exclusively supply a diverse range of 33 products to the Department, including ham, cantaloupe, and eggs, in fiscal year 2020.

Sources: The Department's 2018 Cost Statement; the Department's Fiscal Year 2018 Statistical Report; the Department's website, as of December 1, 2018; Agribusiness' Fiscal Year 2020 Planned Food Projections; and Food Service's listing of items to be procured externally in fiscal year 2020.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131, 321.0132 and 321.0133.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Auditors identified weaknesses in the Department’s controls over access to certain information systems. Additionally, auditors assessed controls over the Department’s financial and purchasing systems. While the Department had some controls in place, it should strengthen certain controls. To minimize security risks, auditors communicated details about these identified weaknesses separately to the Department in writing.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office’s *Generally Accepted Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
1-A	The Department Should Use Cost Statement Data to Improve Cost-effectiveness	High
1-B	The Department Should Produce Agribusiness Cost Data in Time for Its Use in Planning the Next Fiscal Year’s Food Purchases	Medium
2-A	Most of the 2018 Cost Statement Data Was Accurate	Low
2-B	The Department Should Strengthen Its Processes to Ensure That Data Used to Prepare Future Cost Statements is Accurate	Medium
3-A	The Department Should Improve Certain Controls to Help Ensure the Reliability of Data Used to Prepare the Agribusiness Cost Statement	High
3-B	The Department Should Continue Strengthening Information Technology Controls over Its Financial Data	Low
3-C	The Department Should Improve Certain Controls to Protect Its Assets	Medium

^a A subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated **Low** if the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Auditors communicated other, less significant issues separately in writing to the Department's management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of the audit were:

- To determine whether the Department has processes and related controls to help ensure the accuracy and completeness of the cost-related data that prison units report and that the Department compiles into an annual cost statement.
- To determine whether the Department uses cost statement data and related analyses to make decisions for developing and improving agricultural operations, as required by statute.

The audit scope covered the 2018 Cost Statement, use of 2018 Cost Statement data, and controls over the Department's significant information technology systems. The scope also included a review of significant internal control components related to the 2018 Cost Statement data.

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Detailed Results

Chapter 1

The Department Should Expand Its Use of Cost Statement Data and Related Analyses to Improve Agricultural Operations

Background

Texas Government Code, Section 497.112(b) requires the Department of Criminal Justice (Department) to use information provided in its Agribusiness, Land and Minerals Division's (Agribusiness) Cost Statement (Cost Statement) to develop and improve agricultural operations. In its Agribusiness/Food Service Resource Coordination Guidelines (Guidelines), the Department communicated its expectation that Agribusiness is to manage production of food and fiber for its incarcerated offenders in a cost-effective manner (see text box for more information on cost-effectiveness). The Guidelines state that the Department will measure the cost-effectiveness of its agricultural operations by comparing its cost to produce products against the market value of "like or closely similar" products.

Definition of Cost-effectiveness

According to Department Guidelines, "Agribusiness, Land and Minerals' primary objective is the cost-effective production of food and fiber to be consumed or used to provide for the subsistence of the agency's incarcerated offender population. Agribusiness' success in meeting this objective is measured by comparing actual cost of production for component and end products to the market value of like or closely similar products."

Source: The Department's *Agribusiness/Food Service Resource Coordination Guidelines*, Chapter 3; Agribusiness Annual Cost Statement and Trend Analysis.

The Cost Statement contains data that compares the Department's cost for producing each of 69 different agricultural goods with a corresponding market value that Agribusiness has determined. The Department reported that it has largely been successful in managing its agricultural operations, by achieving \$160.3 million in cost savings from calendar years 2014 to 2018.¹ The Cost Statement contains five years' worth of data because it enables management to consider product performance over time, instead of just on one or two years' results, which may be outliers.

¹ The most recent cost statement available at the time of the audit was the 2018 Cost Statement, which management presented to the Board of Criminal Justice on July 16, 2019.

The Department Should Use Cost Statement Data to Improve Cost-effectiveness

Chapter 1-A
Rating:

High ²

The Department's processes for managing its agricultural operations are not comprehensive enough to ensure that these operations are consistently cost-effective. Although most of the agricultural operations were cost-effective from 2014 to 2018, the Department consistently produced a significant number of items that were not cost-effective during that time. The Department should implement processes to identify products that are not cost-effective and make management decisions based on that analysis. Auditors examined the accuracy of the 2018 Cost Statement, which was the most recent Cost Statement available at the time of the audit.

Almost Half of the Agricultural Products Were Not Cost-effective

The Department's Cost Statements show savings of \$160.3 million from 2014 to 2018 from producing goods, compared with what it would have cost to purchase those items externally. However, the Cost Statements also show that during this period, 32 of the Department's 69 agricultural products (46 percent) were not cost-effective. The Department could have saved \$17.0 million if it had purchased these products rather than produced them. Most of these products consistently cost more to produce than to purchase for all or most of the five year period. Specifically :

- In each of the five years, 13 products cost more to produce than to purchase. The Department could have saved \$13.0 million by choosing to purchase these 13 products.
- In four of the five years, an additional four products cost more to produce than to purchase. The Department could have saved \$1.5 million by choosing to purchase these four products.
- In three of the five years, an additional five products cost more to produce than to purchase. The Department could have saved \$1.0 million by choosing to purchase these five products.

Appendix 4 lists categories of agricultural items that the Department produced and the associated cost savings and losses for calendar years 2014-2018.

² The risk related to the issues discussed in Chapter 1-A is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

The Department's Current Processes Did Not Comprehensively and Consistently Identify Products That Were Not Produced Cost Effectively

The Guidelines state that Agribusiness' primary objective is cost-effective production of agricultural products. The Guidelines also require Agribusiness to implement strategic operational changes to minimize offenders' feeding costs when that action is determined to be in the best interests of the agency based on this analysis. The Department uses annual reviews and trend analyses to evaluate the cost effectiveness of its agricultural operations. Management has taken steps to improve cost effectiveness based on available data. However, these analyses have not consistently resulted in the Department identifying products that have not been cost effective and documenting its decisions based on available data.

Department management performs an annual analysis on the annual Cost Statement, but it has not developed a formal plan or policy to document this analysis and its planned changes to minimize costs. For example, the Agribusiness Division program supervisors met to review and analyze the 2018 Cost Statement, as required by the Guidelines. However, the Department has no documentation of the results of this meeting, including how the supervisors used cost and production data to determine the long-term cost-effectiveness of Agribusiness' products.

In addition, although Department Cost Statements contain trend analysis data, including production, cost, and market value data for the most recent five years, they do not contain cost-effectiveness analyses for that period. If the Cost Statements showed this cost-effectiveness data, the Department could identify products that it had consistently not been producing cost effectively.

Although the Department did not have a process to consistently document and address all instances in which producing goods regularly cost the Department more than purchasing the goods, management created a plan to address issues with the product with the largest excess costs – cotton. Cotton and cottonseed cost \$5.6 million more to produce from 2014–2018 than to purchase externally. In October 2018, management created a reallocation plan to implement strategic operational changes designed to make its cotton crop cost-effective. Management planned to address crop losses from previous years by increasing cotton yields. It planned to increase yields by changing the location in which the Department grows some of its cotton, changing to a cotton variety that ripens earlier, and possibly upgrading one of the Department's cotton gins.

Implement Systematic, Complete Analyses

The Department should add analyses in which it evaluates the cost-effectiveness of all of its agricultural products and documents its assessments of whether it wants to keep growing individual crops. The Department should document its reasons for continuing to grow crops that cost more to produce than to purchase. These reasons might include the need to continue producing certain items to ensure a reliable food supply for its population of incarcerated offenders.

Recommendations

The Department should improve its operations' cost-effectiveness by adding processes that enable it to perform and document comprehensive and consistent analysis of its agricultural functions, including:

- Documenting management's review of the annual Cost Statement, including potential opportunities it identifies to improve agricultural operations and cost-effectiveness.
- Adding a five-year cost-effectiveness analysis with the other trend analysis data in future Cost Statements.
- Documenting reasons for continuing to produce items that can be purchased externally at a lower cost.

Management's Response

The Texas Department of Criminal Justice agrees with the recommendation and will continue to use data derived from the Cost Statement to identify opportunities to improve cost-effectiveness. This will include adding trend analysis information to the Cost Statement and ensuring that documented reasons for continuing to produce items that can be purchased externally at a lower cost such as, items that are: historically challenging to obtain from vendors, provide fresh produce while considering shelf life, are incorporated into the planting rotation to ensure soil and crop health, or are projected to become cost-effective in the future. The target date for implementation is April 30, 2021.

The Department Should Produce Agribusiness Cost Data in Time for Its Use in Planning the Next Fiscal Year's Food Purchases

**Chapter 1-B
Rating:**

Medium ³

Cost Statement data would be more useful if the Department produced the Cost Statement in time for Agribusiness and the Laundry, Food and Supply (Food Service) division to use the data to plan food purchases for the next fiscal year. The Guidelines list the Cost Statement as a deliverable, but they do not require Agribusiness to produce the Cost Statement or other cost data in a timely manner.

Agribusiness and Food Service followed most of the requirements from the Guidelines that were tested. The Department designed these Guidelines to help these areas coordinate efforts to maximize resources used to provide food for offender consumption.

Cost Statement Timeliness and Usefulness

Agribusiness did not complete the 2018 Cost Statement on time. The Guidelines require Agribusiness to produce the prior calendar year's Cost Statement and have it approved by the Department's Chief Financial Officer by March 31 annually. Agribusiness did not complete the 2018 Cost Statement until July 16, 2019, 107 days after it was due. Reasons for the delay included not assigning sufficient staff to enable the project to meet the due date.

However, even if Agribusiness had met this deadline for producing the 2018 Cost Statement, the Cost Statement data would not have been available to help the Department determine the most cost-effective combination of internal production and external purchases of foods. Food Service is required to provide the list of foods it plans to purchase externally during the following fiscal year to the Department's Budget Department and Contracts and Procurement Department annually on February 1, which is prior to the Cost Statement deadline.

³ The risk related to the issues discussed in Chapter 1-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Agribusiness produces a significant amount of the food provided to offenders (see text box). To plan its food purchases, the Department needs Agribusiness cost data to determine whether producing a product or purchasing that product externally is more cost-effective.

For example, the 2017 Cost Statement showed that the Department had paid \$2.7 million more to produce canned green beans compared with the cost to purchase them externally from 2014–2017. If this data had been available during the food planning cycle, Food Service and Agribusiness could have considered the cost-effectiveness of continuing to produce green beans internally. The Department could have avoided paying the \$473,939 additional cost it paid in calendar year 2018 to produce green beans by purchasing them instead. Agribusiness records show that it planted 406 acres of green beans for canning in calendar year 2019.

**Agribusiness' Produced Foods
Provided to Offenders**

Agribusiness provided a significant portion of the food that the Department served to offenders, including almost all meat products. Most products that Food Service purchased externally were items that Agribusiness could not readily produce, such as sugar and pineapples.

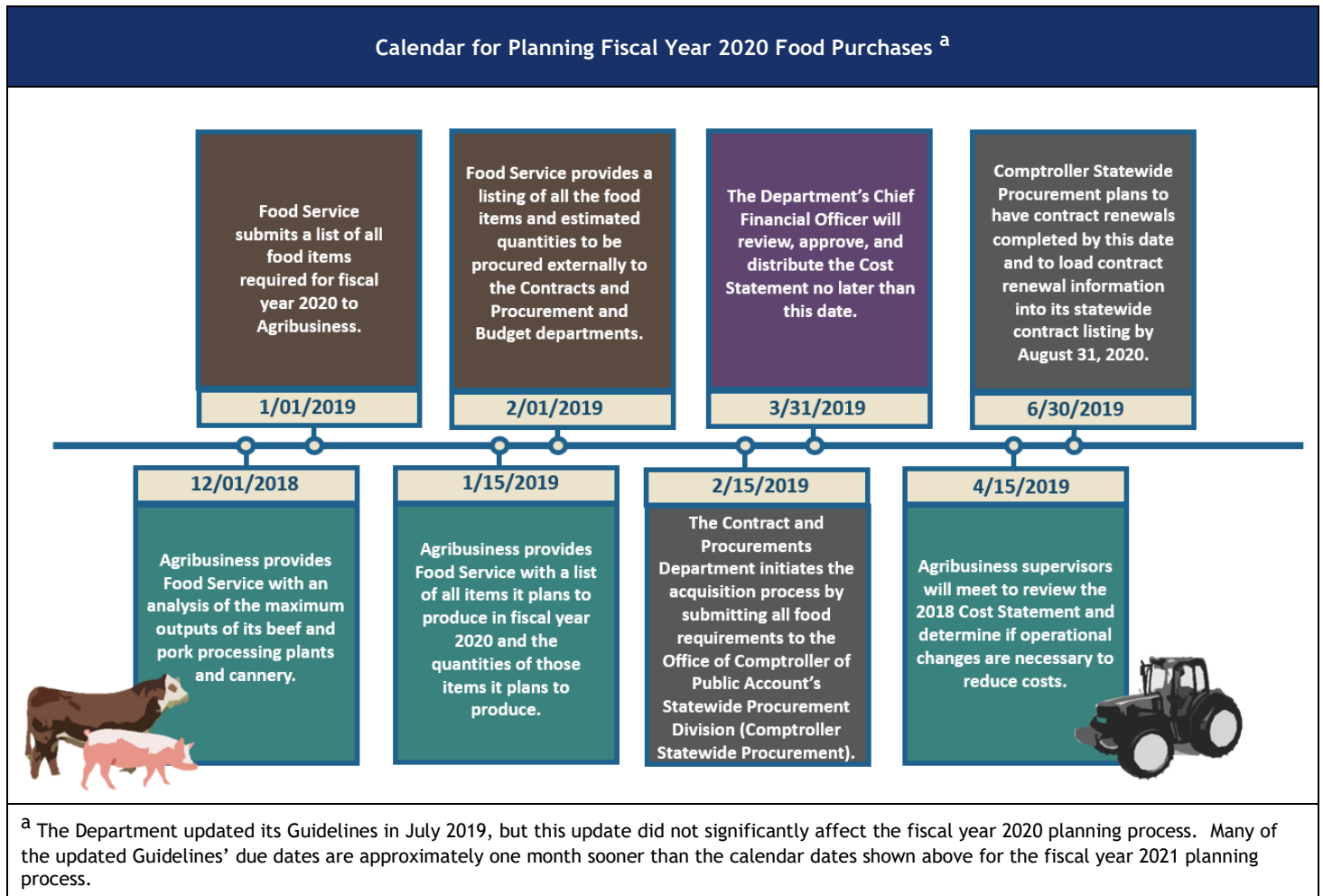
Source: Food Services' listing of food items to be procured externally for fiscal years 2019 - 2021.

Food Production and Purchase Planning for Fiscal Year 2020

Food Service and Agribusiness completed required planning and financial documents other than the Cost Statement within 20 days of their due dates in fiscal year 2019. The Guidelines require Agribusiness and Food Service to produce a series of planning and financial documents as part of preparing the next fiscal year's menus and external food purchases in addition to the Cost Statement. Figure 1 on the next page shows the calendar of events for this process.

During fiscal year 2019, Agribusiness and Food Service met once every two months to review performance and make any necessary adjustments to the Department's current operating year production plan for fiscal year 2019, as required by the Guidelines. The meetings mainly involved discussions about current production and inventories of foods.

Figure 1



Source: The Department's *Agribusiness/Food Service Resource Coordination Guidelines*, Chapter 1, February 29, 2012.

Recommendation

The Department should determine whether Agribusiness can produce the Cost Statement or other cost-effectiveness data timely enough to enable Agribusiness and Food Service to use Cost Statement data to analyze additional potential financial savings.

Management's Response

The Texas Department of Criminal Justice agrees with the recommendation. The Manufacturing, Agribusiness and Logistics Division is initiating a process whereby enterprises, products, and services are reviewed annually using a combination of Cost Statement data from the preceding year and other current relevant information. This will result in a management decision

regarding the continuation of an enterprise, prior to submitting food requisitions for the coming year. The target date for implementation is April 30, 2021.

Data in the Department’s 2018 Cost Statement Was Generally Accurate; However, the Department Should Improve the Processes It Uses to Account for and Report on Its Agricultural Operations

Most of the audited data in the 2018 Cost Statement⁴ was accurate. However, to reduce the risk of significant errors in future cost statements, the Department should improve the design, implementation, and operating effectiveness of some of the key processes it uses to account for its agricultural operations and to create its annual Cost Statement.

Chapter 2-A

Most of the 2018 Cost Statement Data Was Accurate

**Chapter 2-A
Rating:
Low⁵**

Most of the data in the 2018 Cost Statement was accurate. Cost Statement data was generally consistent with data in the Farm Business System (FBS), which is the Department’s cost accounting system. See Chapter 2-B for additional information. Table 2 presents a high-level summary of Cost Statement data.

Table 2

Summary - 2018 Cost Statement	
Category	Amount (in millions)
Sales - all types	\$92.6
Cost of Goods Sold	(57.9)
Other Operating Expenses	(3.5)
Gross Margin	\$31.2

Source: 2018 Agribusiness, Land and Minerals Division Cost Statement.

⁴ The 2018 Cost Statement was the most recent cost statement available at the time of the audit.

⁵ The risk related to the issues discussed in Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Sales Revenues

The Department reported \$92.6 million in sales revenues. Most revenues in the 2018 Cost Statement are intra-agency sales (\$71.4 million), as shown in Table 3. The Department accurately reported the following cash revenues in the Cost Statement:

- \$6.6 million from cattle sales.
- \$1.1 million in outside grain and cotton sales.
- \$8.5 million in contract receipts.

The intra-agency sales total was consistent with the market values used in the Cost Statement and the amounts of products that the Department reported that it sold.⁶

However, the Department did not have a policy specifying its criteria for selecting the sources of Cost Statement market values and describing which sources it would use.

Cost of Goods Sold and Other Operating Expenditures

As shown in Table 2 on the previous page, the Department reported \$57.9 million in cost of goods sold and \$3.5 million other operating expenses in the 2018 Cost Statement. Direct materials transactions that were tested matched with supporting documents and corresponding transactions in the Advanced Purchasing and Inventory Control System (ADPICS), which is the Department's purchasing system.

Table 3

2018 Cost Statement Sales Revenues	
Category	Amount (in millions)
Total Intra-Agency Sales	\$71.4
Outside Sales and Revenue	
Cattle Sales	6.6
Grain and Cotton Sales	1.1
Contract Receipts	8.5
Other Outside Sales and Revenue	1.4
Total Outside Sales Revenue	\$17.6
Other Internal Revenue	
Kitchen Waste Savings	1.6
Additional Other Internal Revenue	2.0
Total Other Internal Revenue	\$3.6
Total Sales Revenues	\$92.6

Source: 2018 Agribusiness, Land and Minerals Division Cost Statement.

⁶ Intra-agency sales are non-cash revenues. Non-cash revenues occur when Agribusiness transfers products (for example, canned goods) to other Department sections, such as Food Service. Non-cash revenue amounts are calculated by multiplying the quantity of items transferred by an estimated market value. Non-cash revenues do not represent an actual inflow of funds to the Department.

Transfers

The Department also reported transfers accurately. Table 4 shows the Department's \$26.0 million in intra-divisional transfers out, which matched intra-divisional transfers in.

Table 4

2018 Cost Statement Transfers Out	
Category	Amount (in millions)
Prior Year Intra-Agency Transfers Out	\$3.7
Intra-Agency Transfers Out	\$22.3
Total Intra-Agency Transfers	\$26.0

Source: 2018 Agribusiness, Land and Minerals Division Cost Statement

Recommendation

The Department should develop policies and procedures describing its objectives for selecting market values and its criteria for selecting market values.

Management's Response

The Texas Department of Criminal Justice agrees with the recommendation. The Manufacturing, Agribusiness and Logistics Division will document policies and procedures for compiling the Cost Statement, including a description of the objectives for selecting market values, and the criteria to be used when selecting market values. The target date for implementation is May 31, 2021.

Chapter 2-B

The Department Should Strengthen Its Processes to Ensure That Data Used to Prepare Future Annual Cost Statements is Accurate

**Chapter 2-B
Rating:
Medium ⁷**

Although the data in the 2018 Cost Statement was generally accurate, the Department should improve some of its key processes to reduce the risk of significant errors in future cost statements. The Department should document policies and procedures describing creation of the Cost Statement, document the connection between the Cost Statement and its supporting data, and implement reconciliations that ensure that data in its cost accounting system (FBS) is consistent with source data.

Develop Policies and Procedures Describing the Process for Producing the Cost Statement

The Department did not have detailed policies and procedures in place that provided a complete description of the processes used to prepare the 2018 Cost Statement. The policies and procedures for preparing the Cost Statement contain a high-level narrative, rather than detailed descriptions, of

⁷ The risk related to the issues discussed in Chapter 2-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

processes for preparing the Cost Statement. In addition, the policies and procedures are outdated. For example, they include processes performed by persons holding positions that no longer exist in the Department.

Document the Connection Between Its Annual Cost Statement and Supporting Data

The informal processes that staff members use do not result in creation of documentation that provides a clear and consistent connection between source documentation, including FBS and inventory data, and the Cost Statement. The lack of a clear link to source data makes supervisory review of the Cost Statement difficult. Also, only one staff member knows how to perform certain Cost Statement processes. Documenting and updating all processes and the connection between the Cost Statement and supporting data would make it easier to train other staff members to perform these processes.

Implement Reconciliations to Ensure FBS Data is Consistent with Source Data

The Department's current reconciliation processes to ensure that FBS data was consistent with source data could be strengthened. Since FBS is the main source of Cost Statement data, ensuring that FBS data is accurate is key to ensuring the Cost Statement's accuracy:

- **Cash Revenues and Expenditures.** The Department compares FBS data with information in the Department's financial accounting and purchasing systems periodically to ensure the accuracy of the Cost Statement. Although the Department maintains this documentation, the information included in each comparison is overwritten during subsequent periods. In addition, Department staff asserted that they performed a year-end reconciliation for 2018 but did not retain this year-end reconciliation. Preparing, reviewing, documenting, and retaining periodic reconciliations are essential in detecting and correcting errors.
- **Inventory Data.** The monthly inventory reconciliations between FBS and monthly farm inventory reports do not always result in staff correcting errors in the inventory reports, which increases the risk of undetected errors in FBS. Department staff calculated 93 of 118 inventory balances (79 percent) accurately. However, the remaining inventory reports had errors, including calculation errors and omissions. In addition, 32 of 103 inventory forms (31 percent) lacked required documentation of manager review and approval.
- **Policies and Procedures.** The Department also did not have comprehensive policies and procedures in place to establish and document how reconciliations of cash revenues, expenditures, and of inventory data

should be completed. Periodic reconciliations ensure that long-standing reconciliation items are highlighted for action to correct potential errors.

Recommendation

The Department should improve its current processes to ensure that Cost Statement data is consistent with source data, including:

- Updating and expanding its procedures for developing the Cost Statement, including procedures to document the connection between source data and the Cost Statement.
- Developing and documenting processes that implement effective reconciliations, rather than comparisons, between FBS and source data.

Management's Response

The Texas Department of Criminal Justice agrees with the recommendation. As noted in chapter 2-A, the recommended action will be incorporated into documented policies and procedures. The target date for implementation is May 31, 2021.

The Department Should Strengthen Information Technology Controls over Agribusiness Data

Auditors noted opportunities for the Department to strengthen its information technology controls, especially those protecting data the Department uses to prepare the Cost Statement.

Chapter 3-A

The Department Should Improve Certain Controls to Help Ensure the Reliability of Data Used to Prepare the Cost Statement

Auditors identified weaknesses in the Department's controls over access to certain information systems. To minimize security risks, auditors communicated details about the identified weaknesses related to access separately to the Department in writing.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Chapter 3-B

The Department Should Continue Strengthening Information Technology Controls over Its Financial Data

The Department implemented controls to address findings from a previous audit concerning access to its main financial accounting system. The Department addressed segregation of duties issues noted in the prior audit. The original findings were in *An Audit Report on Financial Processes at the Department of Criminal Justice* (State Auditor's Office Report No. 18-035, June 2018).

However, the Department could further strengthen these controls. The Department should ensure that it consistently monitors access to its financial accounting system to ensure that only current employees can use the system. Appropriately managing access to key information systems would

Chapter 3-A
Rating:
High ⁸

Chapter 3-B
Rating:
Low ⁹

⁸ The risk related to the issues discussed in Chapter 3-A is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

⁹ The risk related to the issues discussed in Chapter 3-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

help decrease the risk of inappropriate transactions being processed without proper review.

Recommendation

The Department should ensure that it appropriately restricts access to its key information systems.

Management's Response

The Texas Department of Criminal Justice agrees with the recommendation. The Manufacturing, Agribusiness and Logistics Division and the Information Technology Division will coordinate to ensure access to key information systems is limited to staff who require access. The target date for implementation is March 31, 2021.

Chapter 3-C

The Department Should Improve Certain Controls to Protect Its Assets

Chapter 3-C
Rating:
Medium¹⁰

The Department's Advanced Purchasing and Inventory Control System (ADPICS) has controls in place to ensure that purchases undergo a 3-way match between the purchase order, receiving report, and invoice before payment is issued to the vendor. However, the Department allows its departments to choose not to enforce this 3-way match for certain transactions.

All 25 purchases tested had all elements of a 3-way match. However, 15 (60 percent) of those purchases were made by an employee who also received the purchased items.

The 3-way match provides a critical control over expenditures, reducing the risk that employees could make unauthorized orders or divert items. Allowing the same person to make a purchase and receive the purchased item compromises this control.

¹⁰ The risk related to the issues discussed in Chapter 3-C is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Recommendation

The Department should enforce controls that ensure that persons authorizing purchases do not receive the items purchased.

Management's Response

The Texas Department of Criminal Justice (TDCJ) agrees with the recommendation. Discussions with the auditor revealed the deviations noted were all situations in which an agribusiness employee drew a quantity of commodities from an existing blanket purchase order negotiated by the TDCJ Contracts and Procurement Department. The TDCJ will strengthen controls by ensuring functions for this type of transaction are segregated. The target date for implementation is March 31, 2021.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Criminal Justice (Department) has processes and related controls to help ensure the accuracy and completeness of the cost-related data that prison units report and that the Department compiles into an annual Cost Statement.
- Determine whether the Department uses Cost Statement data and related analyses to make decisions for developing and improving agricultural operations, as required by statute.

Scope

The scope of this audit covered the 2018 Cost Statement, the use of 2018 Cost Statement data, and controls over the Department's significant information technology systems. The scope also included a review of significant internal control components related to the Cost Statement data (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included a combination of inquiry, reviewing the Department's policies and procedures, access controls testing, examining evidence of monitoring, tying the Cost Statement to the underlying financial records, testing reconciliations, examining supporting documentation, testing allocations of expenses, and comparing valuations used in the Cost Statement to actual costs paid by the Department for similar items.

Data Reliability and Completeness

Auditors reviewed multiple data sets to assess the reliability of the Department's information systems.

Lonestars and ADPICS. For cash revenue and expenditures data, auditors used data from the Department's financial system, Lonestars, and performed procedures to assess the reliability of those data sets including (1) observing data extracts, (2) reviewing query parameters used to extract the data, and (3) comparing select data to the Uniform Statewide Accounting System (USAS) expenditures and revenues.

Auditors also relied upon prior State Auditor’s Office audit work that tested logical access, change management, and certain key application controls within the Advanced Purchasing and Inventory Control System (ADPICS) and Lonestars.

Auditors determined that the data from Lonestars and ADPICS was sufficiently reliable for purposes of this audit.

FBS. Farm Business System (FBS), which is the agricultural cost accounting system used by Agribusiness, is the key system for creating the annual Cost Statements. The data within FBS was of undetermined reliability for purposes of this audit. Specifically, the Department 1) did not adequately document the results of its processes to ensure FBS cash revenues and expenditures data was consistent with corresponding data in Lonestars, 2) did not ensure that its reconciliations between FBS and monthly inventory reports were effective in ensuring that staff corrected errors and omissions in inventory records, and 3) had other issues related to its automated environment. However, Agribusiness managers perform an informal analytic review that has a good likelihood of detecting significant errors. FBS data was the best available data source for certain analyses.

Auditors were not able to test the year-end reconciliation between Lonestars and FBS because the Department overwrote the comparisons it performed. Auditors tested inventory controls, which were an important component of ensuring that noncash revenues and transfers were accurate.

Sampling Methodology

Auditors selected non-statistical samples for 1) direct materials and 2) cattle sales, primarily through random selection. The sampling design was selected to provide auditors with sufficient evidence to meet the audit objectives. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors also chose a nonstatistical sample of crop/item market values by selecting all 16 crops/items of intra-agency sales with values exceeding \$1 million and adding one risk-based sample item (Irish potatoes) to obtain 94 percent coverage of intra-agency sales to Food Services. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

In addition, during fieldwork, auditors learned that Food Services and Agribusiness purchased three other products externally to supplement Agribusiness production. Auditors added these items for price comparison.

Information collected and reviewed included the following:

- 2014–2018 Agribusiness, Land, and Minerals Division Cost Statements.
- State of Texas contracts.
- United States Department of Agriculture’s Crop Values 2018 Summary.
- Supporting documentation for accounts selected, including Cost Statement values (prices), cattle sales, and inventory adjustments.
- List of 2018 Agribusiness contracts.
- List of food items that were produced by Agribusiness and items procured by the Food Services Division through outside vendors.

Procedures and tests conducted included the following:

- Interviewed the Department’s management and staff.
- Tested the 2018 Cost Statement to ensure it contained the required elements, including production costs and market values of all items produced by Agribusiness for the last five years.
- Summarized results that the Department reported in its 2014–2018 Cost Statements.
- Tested the pricing used for intra-agency sales, kitchen waste, and items bartered for cotton ginning services and grain storage to verify that pricing used by the Department matched the described valuation.
- Tested the accuracy of cattle sales revenue in FBS by comparing transactions with those in Lonestars to prove actual occurrence and proper valuation of the revenues.
- Tested transfers within Agribusiness to ensure that the recorded quantities transferred out matched the recorded quantities transferred in.
- Tested prior year inventory adjustments/impairments to verify that changes to the inventory accounts were valued accurately and supported by documentation.
- Extracted FBS data to construct a general ledger and traced the data to the Cost Statement. Also traced other data added to the Cost Statement to source reports.

- Tested automated access controls over Lonestars and active directory access controls over Microsoft Access files that contained the underlying data for FBS.

Criteria used included the following:

- Texas Government Code, Chapter 497.
- Title 1, Texas Administrative Code, Chapter 202.
- Department of Information Resources' *Security Controls Standards Catalog*, version 1.3.
- The Department's *Agribusiness/Food Service Resource Coordination Guidelines*, revised February 29, 2012.
- Agribusiness policies and procedures.
- The Department's FBS Instructional Manual.
- The Department's accounting policies and procedures.

Project Information

Audit fieldwork was conducted from January 2020 through November 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Gregory Scott Adams, MPA, CPA, CFGM (Project Manager)
- Michelle Rodriguez, CFE (Assistant Project Manager)
- Michael Bennett
- Justin Brister
- Brandy Corbin
- Rachel Lynne Goldman, CPA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Michael A. Simon, MBA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 5 provides a description of the issue ratings presented in this report.

Table 5

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for 5 integrated components and 17 principles of internal control, which are listed in Table 6.

Table 6

Internal Control Components and Principles		
Component	Component Description	Principles
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.	<ul style="list-style-type: none"> ▪ The organization demonstrates a commitment to integrity and ethical values. ▪ The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. ▪ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. ▪ The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. ▪ The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.	<ul style="list-style-type: none"> ▪ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. ▪ The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. ▪ The organization considers the potential for fraud in assessing risks to the achievement of objectives. ▪ The organization identifies and assesses changes that could significantly impact the system of internal control.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.	<ul style="list-style-type: none"> ▪ The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. ▪ The organization selects and develops general control activities over technology to support the achievement of objectives. ▪ The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Internal Control Components and Principles		
Component	Component Description	Principles
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.	<ul style="list-style-type: none"> ▪ The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. ▪ The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. ▪ The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.	<ul style="list-style-type: none"> ▪ The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. ▪ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Listing of Cost Savings and Losses by Category: 2014-2018

Table 7 lists the cost savings or losses achieved by producing categories of food and fiber items compared with purchasing those items externally that the Department reported in its Cost Statements from 2014 through 2018. The Cost Statements show that the Department saved \$160.3 million during this five-year period.

Table 7

Cost Savings/(Losses) by Category 2014-2018						
Category	2014	2015	2016	2017	2018	Totals
Edible Crops	\$2,263,165	\$1,051,101	\$1,218,784	\$1,345,324	\$998,178	\$6,876,552
Field Crops	(1,626,109)	(747,840)	(752,859)	(1,708,099)	(1,995,110)	(\$6,830,017)
Livestock	7,611,251	6,434,759	89,008	1,759,632	(1,035,045)	\$14,859,605
Canning Plant	(1,237,941)	(703,641)	(777,454)	(583,493)	(17,987)	(\$3,320,516)
Beef Plant	9,552,185	18,137,708	26,270,627	23,173,644	23,895,923	\$101,030,087
Pork Plant	10,980,666	12,772,913	10,834,507	8,985,770	4,092,320	\$47,666,176
Totals	\$27,543,217	\$36,945,000	\$36,882,613	\$32,972,778	\$25,938,279	\$160,281,887

Source: Manufacturing, Agribusiness, and Logistics Division's Agribusiness, Land and Minerals Cost Statements for the years 2014 through 2018.

Related State Auditor's Office Report

Table 8

Related State Auditor's Office Report		
Number	Report Name	Release Date
18-035	<i>An Audit Report on Financial Processes at the Department of Criminal Justice</i>	June 2018

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Department of Criminal Justice

Members of the Board of Criminal Justice

Mr. Patrick O'Daniel, Chairman

Ms. Derrellynn Perryman, Vice-Chairman

Mr. Larry Miles, Secretary

Dr. Rodney Burrow

Mr. E.F. "Mano" DeAyala

The Honorable Molly Francis

The Honorable Faith Johnson

Mr. Eric Nichols

Mr. Sichan Siv

Mr. Bryan Collier, Executive Director



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