



September 24, 2009

Mr. Kevin Masuhara, Director  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814

Dear Mr. Masuhara:

**Final Report—California Table Grape Commission Fiscal and Compliance Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its limited scope fiscal and compliance audit of the California Table Grape Commission (Commission) for the period April 1, 2006 through March 31, 2009.

The enclosed report is for your information and use. After review of the draft report, the Commission chose not to provide a written response.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Zachary T. Stacy, Supervisor, at (916) 322-2985.

Sincerely,

***Original signed by:***

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Louis Pandol, Chair, Commission Finance Subcommittee, California Table Grape Commission  
Ms. Kathleen Nave, President, California Table Grape Commission  
Mr. Ron Shackelford, Chief of Audits, California Department of Food and Agriculture  
Mr. Robert Maxie, Branch Chief, Marketing Branch, California Department of Food and Agriculture

# A FISCAL AND COMPLIANCE AUDIT

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## California Table Grape Commission April 1, 2006 through March 31, 2009

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

**MEMBERS OF THE TEAM**

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Final reports are available on our website at <http://www.dof.ca.gov>

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# BACKGROUND, SCOPE, AND METHODOLOGY

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## **BACKGROUND**

The Division of Marketing Services, a component of the California Department of Food and Agriculture (CDFA), assists in the promotion and administrative oversight of 56 agricultural marketing programs promoting over 350 California agricultural products.

The California Table Grape Commission (Commission), an agricultural marketing program, provides both domestic and international advertising and marketing services for California table grape farmers. The Commission was established by the California Legislature in 1967 to maintain and expand the markets for California table grapes throughout California, the United States, and around the world. The Commission is comprised of 19 Commission members representing six districts, and employs 21 full-time staff to carry out day-to-day operations.

The Commission is primarily funded by fee assessments on table grape shippers based on the number of boxes shipped. Additionally, the Commission receives funding by participating in various international marketing programs administered by the United States Department of Agriculture (USDA).

Section 65572(f) of the California Food and Agriculture Code states the Commission's books, records, and accounts shall be open to inspection and audit by the California Department of Finance (Finance). As a result, Finance performed a limited fiscal and compliance audit of the Commission. The objective of this audit was to determine whether certain activities and expenditures incurred by the Commission complied with the law and were within the Commission's authority.

## **SCOPE**

The scope of the audit included whether:

1. The Commission followed its policies and procedures.
2. The activities and expenditures incurred by the Commission complied with state law and regulations and were within the Commission's authority.
3. The Commission competitively evaluated contractors.
4. There were violations of the Bagley-Keene Open Meeting Act, the Political Reform Act, and the Public Records Act.

The scope was limited to April 1, 2006 through March 31, 2009. The audit examined, on a test basis, expenditures and supporting evidence, in particular the Commission's credit cards, travel expenditures, contracts, payroll, and other purchases. The scope of the audit focused on expenses and compliance with various rules and regulations. As a result, revenues and balance sheet accounts were not examined. Additionally, we did not test internal controls. However, we will report any internal control weaknesses noted during the course of our audit.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **METHODOLOGY**

To gain an understanding of key legal provisions and established criteria, we reviewed the applicable marketing order enabling acts, the Commission's internal policies and procedures, program guidelines, Commission and Committee meeting minutes, and other applicable state and federal legal provisions and regulations. We also interviewed executive management and key staff directly responsible for administering the marketing program to determine how the established policies and procedures were implemented.

### *Purchases*

To assess whether the Commission's funds were expended within its authority, we tested a sample of expenses, specifically credit card transactions and check purchases, to ensure laws and applicable criteria were followed and expenses were reasonable.

In order to select a sample:

- We reviewed the Commission's audited financial statements for the 3-year period May 1, 2005 to April 30, 2008. Expense categories were compared as a percentage of total annual expenses to determine if there were significant changes from year to year. Significant changes or unusual trends were considered potential areas of risk.
- Additionally, we performed analytical procedures on credit card expenses for the audit period. We obtained credit card expense transactions in electronic format and verified the validity of electronic data by tracing the electronic data to credit card statements. Next, we sorted the electronic data by description, amount, vendor, and transaction type to identify questionable vendor payments, unusual trends, and/or unusual account descriptions warranting further investigation.
- Finally, expenses were evaluated based on the inherent risk that errors or irregularities could occur, such as credit card or travel related expenses.

Once a sample of expenses was selected based on identified risk areas, we verified expenses were:

- Recorded and reported accurately in the Commission's accounting system and financial statements.
- Adequately supported with invoices, vouchers, approvals, and general ledger account classifications.
- For reasonable business-related expenses and did not appear lavish or personal in nature.

### *Payroll*

To assess whether payroll expenses were reasonable and supported we interviewed Commission management and staff; and we selected a sample of employees to verify that:

- Employee files contained required documents.
- Timesheets for employees were complete, accurate, and traced to the payroll register.
- Timesheets contained the proper approvals.
- Leave time was accurately reported and consistent with established rules and regulations.
- Overtime worked was authorized and properly reported.

### *Contracts*

To determine whether the Commission had adequate contracting processes, we reviewed and gained an understanding of the Commission's policies and procedures for purchasing and contracts. We also interviewed Commission management and staff to determine how the policies and procedures were implemented. We selected a sample of contracts over \$25,000 to determine that they were competitively bid and awarded in accordance with established policies and procedures.

### *Bagley-Keene Open Meeting Act, Political Reform Act, and Public Records Act*

- To determine whether the Commission complied with the Bagley-Keene Open Meeting Act, we verified that the Commission publishes notices and agendas of public meetings on the CDFA and Commission websites. We also verified that meeting minutes are made readily available.
- To determine whether the Commission complied with the Political Reform Act, we verified that all appointed Commission members filed a Form 700 with the California Fair Political Practices Commission disclosing reportable assets and income.
- To determine whether the Commission complied with the Public Records Act, we reviewed request letters and the Commission's response letters to determine whether it provided the requested information.

Recommendations were developed based on our review of documentation made available to us and interviews with the Commission's management and key staff.

The Department of Finance, Office of State Audits and Evaluations, completed its fiscal and compliance audit of the California Table Grape Commission (Commission). Based on the audit procedures performed, the Commission's expenditures were in compliance with its internal policies and procedures and were not determined to be lavish or personal in nature. Additionally, the Commission competitively evaluates contracts and is in compliance with the Bagley-Keene Open Meeting, Political Reform, and Public Records Acts.

We identified two observations during our audit. Although the Commission has already implemented corrective action, for transparency purposes, we feel disclosure is warranted. The observations are presented below.

## **OBSERVATION 1    PERSONAL USE OF COMMISSION VEHICLES**

The Commission had not accounted for or reported the value of employees' personal use of Commission vehicles as a fringe benefit. The Commission owns two vehicles, which it allows two employees to use for personal and business use. The Commission did not require the employees to track personal use of their vehicle, nor did the Commission report the fringe benefit as income on either employee's payroll records or IRS Form W-2. Code of Federal Regulations, Title 26, Section 1.61-21, provides that gross income includes fringe benefits such as the personal use of an employer-provided automobile.

As a result, the Commission may have exposed itself to additional payroll taxes, penalties, and interest by not correctly reporting these payments as taxable income.

Starting in February 2009, the two employees began tracking their personal use of the vehicle.

### *Recommendation:*

The Commission should continue to account for the personal use of the Commission's vehicles and report the benefit as income. It should ensure the methodology for determining the fringe benefit complies with the IRS criteria in valuing the personal use of the Commission's vehicles.

## **OBSERVATION 2    REIMBURSEMENT OF CHARTERED AIRCRAFT**

Previously, the Commission had reimbursed Commissioners for chartered aircraft expenses incurred to attend Commission meetings. The cost of chartered aircraft is significantly greater than the cost of commercial airfare. The Commission changed its practice after December 20, 2006 to reimburse chartered aircraft expenses at the lower commercial airfare rates regardless of the actual flight costs incurred.

During the period April 2006 through December 2006, six chartered flights carrying a total of eight passengers were reimbursed on a 100 percent basis. The average cost savings for each

passenger at commercial rates was \$1,237. As a result, the Commission could have saved \$9,896 (8 X \$1,237), if it had reimbursed the passengers at commercial airfare rates.

*Recommendation:*

The Commission should continue to reimburse aircraft expenses at the commercial airfare rate, unless the charter flight is less.

This report is intended solely for the information and use of the Commission, and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record and its distribution is not limited.