

April 20, 2006

Members of the Legislative Audit Committee:

The Office of Rural Community Affairs' (Office) internal controls provide reasonable assurance that its expenditures are properly authorized, reasonable, and processed correctly and in a timely manner. Auditors examined the Office's expenditure control activities—which include approvals, authorizations, verifications, reconciliations, and segregation of duties—and a sample of its expenditures. **All expenditures tested were processed in compliance with the internal controls established by the Office.**

#### Expenditure Control Activities

The Office's expenditure control activities ensure that its expenditures are proper and reasonable for the Office's activities. Auditors identified minor weaknesses in access controls over the information systems that the Office corrected during the audit. Any system of internal controls has inherent limitations and can provide only reasonable assurance of achieving the control objective, regardless of how well it is designed and operated. Internal controls cannot absolutely ensure that errors or irregularities would be prevented or detected.

#### Expenditure Test Results

Auditors tested 105 expenditures, totaling \$1,029,934, that the Office made from September 2004 through November 2005 and did not identify any errors. Expenditure categories tested included salaries and wages, professional service fees, and intergovernmental payments. These categories represented approximately 91 percent of the Office's total expenditures for the audit period (see text box). Although the expenditures came from selected categories, the internal controls in place are the same for all types of expenditures.

#### Office of Rural Community Affairs Expenditures

The table below contains the amounts the Office expended, by category, for the audit period of fiscal year 2005 and fiscal year 2006 through November 30, 2005.

Office of Rural Community Affairs Expenditures September 2004 through November 2005		
Category	Amount Expended	Percentage of Total Expenditures
Salaries and Wages	\$ 4,229,827	3.73%
Professional Service Fees	359,916	0.32%
Intergovernmental Payments	98,581,218	86.97%
All Others	10,179,203	8.98%
<b>Total Expenditures</b>	<b>\$113,350,164</b>	<b>100%</b>

Source: Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll/Personnel System (USPS)

SAO Report No. 06-031

We appreciate the Office's cooperation during this audit. If you have any questions, please contact Susan Riley, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

cc: Members of the Office of Rural Community Affairs  
Executive Committee  
Mr. Charles S. Stone, Executive Director, Office of  
Rural Community Affairs

#### Summary of Objective, Scope, and Methodology

The audit objective was to determine whether expenditures for goods and services at the Office of Rural Community Affairs (Office) are properly authorized, processed correctly and in a timely manner, and reasonable for the performance of agency functions.

Our scope included expenditures made during fiscal year 2005 and from September through November of fiscal year 2006.

Auditors reviewed original documentation and professional service contracts, interviewed personnel, and performed analyses of the accounts.

The information technology work conducted at the Office was limited to gaining an understanding of the controls in place as of February 2006 for (1) access administration for the internal accounting system, (2) importing and exporting data between the internal accounting system and USAS, and (3) importing USPS data into the internal accounting system.

This audit was conducted in accordance with generally accepted government auditing standards.

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

- Robert Kiker, CGAP (Project Manager)
- Margaret Nicklas, CGAP, CIA (Assistant Project Manager)
- Lauren L. Godfrey
- John Jacobs, MPAff
- Jennifer Lehman, MBA
- Veda Bragg Mendoza, CIA
- Kelly Marie Vogler
- Michael Yokie, CISA
- Leslie Ashton, CPA (Quality Control Reviewer)
- Susan Riley, CPA (Assistant State Auditor)



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