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May 22, 2012

The Honorable Carl Seel, Chair
Joint Legislative Audit Committee

The Honorable Rick Murphy, Vice Chair
Joint Legislative Audit Committee

Dear Representative Seel and Senator Murphy:

Our Office has recently completed a 24-month followup of the Department of Agriculture—Food Safety and Quality Assurance Inspection Programs regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in May 2010 (Auditor General Report No. 10-04). As the attached grid indicates:

- 3 have been implemented;
- 7 have been partially implemented
- 1 is in the process of being implemented;
- 5 have not been implemented, including a legislative recommendation; and
- 2 are not yet applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department's efforts to implement the recommendations from the May 2010 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:sjs
Attachment

cc: Donald Butler, Director
Department of Agriculture

**Department of Agriculture—Food Safety and Quality
Assurance Inspection Programs
Auditor General Report No. 10-04
24-Month Follow-Up Report**

Recommendation

Status/Additional Explanation

Finding 1: Safety program costs should be shared with industry

1.1 The Department should propose fees to the Legislature that would increase the industry's share of the dairy inspection program's costs. In developing the proposal, the Department should:

a. Consider what portion of total program costs the industry should pay based on program benefits to the industry;

b. Ensure that it has an adequate process for tracking direct and indirect cost data for the dairy inspection program, including dairy product testing at the State Agricultural Laboratory;

c. Develop equitable fees that address factors that influence cost, such as the work required to regulate different members of the dairy industry;

Partially implemented in a different manner

Various session laws have authorized the Department to temporarily increase dairy program fees since fiscal year 2009, prior to completion of the audit. This authorization will continue through fiscal year 2013. However, the Department has not proposed permanent fee increases for this program to the Legislature as recommended.

Implemented in a different manner at 24 months

According to the Department, the fiscal years 2011 and 2012 dairy program fees represent the proper level of industry support for the program. The Department estimates that, in fiscal year 2012, these fees should cover approximately 19.7 percent of the dairy inspection program costs, excluding the State Agricultural Laboratory's dairy product testing costs. However, the Department used the temporary fee increase and agreements with stakeholders as the basis for determining the portion of the program costs the industry should pay, rather than program benefits to the industry.

Partially implemented

The Department has established a system to record time spent by State Agricultural Laboratory staff on dairy product testing. However, the Department reported that it does not have staff available for data entry because of staff downsizing. As a result, dairy product testing costs were not considered in determining the temporary fee increases.

Partially implemented in a different manner

As reported in the initial audit followup, in fiscal year 2011, the Department added a new component to its fee for distributing plants based on the number of pasteurizers in each facility. The Department believes this component represents a fair and efficient way of collecting increased fee revenue from the dairy industry. However, the Department has made this change within the constraints of the temporary fee increase and has not developed new fees for legislative consideration, such as potential fees for dairy farms.

Recommendation

Status/Additional Explanation

- d. Evaluate the dairy inspection program's efficiency to ensure that program costs are not higher than necessary to complete its work, including identifying any possible reduction in regulation that can be achieved without affecting the industry's ability to market its products;
- e. Consider the effect fee increases may have on different establishment types and obtain their input in proposing new fees. If proposed fees are higher than current fees, the Department might recommend gradually phasing in fee increases; and
- f. Submit its proposal to the Legislature for consideration.

Not implemented

Although the Department believes that it is operating with the minimum staff possible while still meeting the requirements of the pasteurized milk ordinance, it has not conducted a formal efficiency review since the completion of the audit.

Partially implemented

As reported in the initial audit followup, the Department considered the impact of raising fees and obtained industry input in setting the fiscal year 2011 fees, which were carried forward into fiscal year 2012. However, stakeholder input was obtained in the context of the temporary fee increases.

Not implemented

See explanation for recommendation 1.1.

- 1.2 After receiving the Department's proposal, the Legislature should consider modifying statute to raise existing dairy inspection program fees, authorize the Department to create additional fees, and/or modify the level of regulation the Department provides.

Not yet applicable

The Department has not proposed permanent fee changes to the Legislature (see explanation for recommendation 1.1).

Finding 2: State should consider transferring meat and poultry inspections to USDA

- 2.1 The Legislature should consider eliminating the state meat and poultry inspection program and transferring inspection responsibilities to the USDA.

Not implemented

Legislation has not been proposed transferring state meat and poultry inspection to the USDA.

- 2.2 If the Legislature decides to retain the state meat and poultry inspection program, the Department should propose new fees to the Legislature to fund the cost of the program. In developing the fees, the Department should do the following:

Partially implemented in a different manner

Various session laws have authorized the Department to temporarily increase meat and poultry inspection program fees since fiscal year 2009, prior to completion of the audit. This authorization will continue through fiscal year 2013. However, the Department has not proposed new fees to the Legislature that would cover the entire cost of the program as recommended because Arizona Revised Statutes §3-2049 states that the cost of inspection shall be borne by the State.

Recommendation**Status/Additional Explanation**

- a. Develop equitable fees that address different types of industry members based on the work required to regulate each member such as meat and poultry slaughterers and processors;
- b. Ensure that it has an adequate process for tracking cost data for the meat and poultry inspection program, including meat and poultry product testing at the State Agricultural Lab;
- c. Evaluate the state meat and poultry inspection program's efficiency to ensure that program costs are not higher than is necessary to complete the work; and
- d. Consider the effect fee increases may have on different establishment types and obtain their input in proposing new fees. Because proposed fees would be significantly higher than current fees, the Department might recommend gradually increasing fees.

Not implemented

See explanation for recommendation 2.2.

Partially implemented

The Department has established a system to record time spent by State Agricultural Laboratory staff on meat and poultry product testing. However, the Department reported that it does not have staff available for data entry because of staff downsizing. As a result, product testing costs were not considered in determining the temporary fee increases.

Not implemented

Although the Department believes the program is operating as efficiently as possible, it has not conducted a formal efficiency review since the completion of the audit.

Partially implemented

As reported in the initial audit followup, the Department considered the impact of raising fees and obtained industry input in setting the fiscal year 2011 fees, which were carried forward into fiscal year 2012. However, stakeholder input was obtained in the context of the temporary fee increases.

- 2.3 After receiving the Department's proposal, the Legislature should consider modifying statute to raise existing fees or authorize the Department to create additional fees.

Not yet applicable

The Department has not proposed new fees to the Legislature (see explanation for recommendation 2.2).

Finding 3: Department helps to ensure egg safety and quality

This finding contained no recommendations.

Finding 4: Department can further promote produce safety

- 4.1 The Department should consider initiating projects using available grant monies or encouraging applicants for grant monies to submit proposals focused on produce safety such as audit preparation or cost-share projects. The Department should do this on the basis of relative costs and benefits involved.

Implemented at 6 months

Finding 5: Department should better promote preventative food defense measures

5.1 The Department should help protect food and agriculture businesses in Arizona by further integrating food defense into its food safety activities through awareness and education in addition to the steps it has already taken in its meat and poultry inspection and egg inspection programs.

Implemented at 24 months

5.2 The Department should seek additional opportunities to collaborate with other government agencies or organizations to promote food security by preventing intentional contamination. For example, the Department could apply for federal Innovative Food Defense Program grant funding from the U.S. Department of Health and Human Services.

Implementation in process

The Department has continued to collaborate with other agencies on food defense-related projects such as the Arizona Foodborne Illness/Food Defense Surveillance and Response Work Group. In addition, the Department participated in the 2011 Arizona State-wide Vigilant Guard emergency preparedness exercise. Further, the Department reported that it intends to investigate federal grant opportunities; however, because of budget cuts, it currently does not have the staff resources to actively do so.