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May 3, 2011

The Honorable Rick Murphy, Chair
Joint Legislative Audit Committee

The Honorable Carl Seel, Vice Chair
Joint Legislative Audit Committee

Dear Senator Murphy and Representative Seel:

Our Office has recently completed an initial followup of the Department of Agriculture (Department) 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:

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

Our Office will conduct an 18-month followup with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:sjs
Attachment

cc: Donald Butler, Director
Department of Agriculture

Department of Agriculture

Auditor General Report No. 10-04

Initial 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

As authorized by Laws 2010, 7th S.S., Ch. 7, the Department temporarily increased dairy program fees for fiscal year 2011. Laws 2011, Ch. 36, allows the Department to continue the increased fees through fiscal year 2012. However, the Department has not proposed permanent fee increases for this program to the Legislature.

Not implemented

According to the Department, the fiscal year 2011 fees were set to restore program funding lost as a result of State General Fund cuts over the past three fiscal years. The Department projects that the increased fees should cover approximately 19.3 percent of the dairy inspection program costs, excluding the State Agricultural Laboratory's dairy product testing costs. This percentage is the portion of total program costs that the Department indicates that industry should pay for fiscal year 2011. However, the Department has used the temporary fee increase as the basis for determining the portion of program costs that industry should pay rather than program benefits to the industry and has yet to determine the portion of total program costs that the industry should pay beyond fiscal year 2011.

Not implemented

The Department reported that it had not yet implemented this recommendation because of issues associated with relocating and downsizing the State Agricultural Laboratory.

Implementation in process

For 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 new 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;

Implementation in process

The Department reported that, given budget cuts over the last few years, senior management, the Agricultural Advisory Committee, and industry members have met numerous times to determine the most efficient way to operate the program and still meet the requirements of the pasteurized milk ordinance (PMO). Program costs are primarily for personal services/related benefits and travel, and the Department believes it is operating with the minimum staff possible. It also uses licensed milk hauler/samplers to collect milk samples for raw milk testing when possible and reported that it performs the baseline milk sample testing required by the PMO. However, the Department was unable to provide any documentation regarding its evaluation of the efficiency of the inspection program.

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

Partially implemented

The Department considered the impact of raising fees and obtained industry input in setting the fiscal year 2011 fees. However, the Department reported that it had not yet discussed fee increases beyond fiscal year 2011 with the dairy industry.

f. Submit its proposal to the Legislature for consideration.

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

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.

Recommendation

Status/Additional Explanation

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:

- 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.

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.

Partially implemented in a different manner

The Department also temporarily increased its meat and poultry inspection program licensing fees for fiscal year 2011 as authorized by Laws 2010, 7th S.S., Ch. 7. Department officials project that the increased licensing fees will cover about 17.4 percent of the State's portion of program costs and believe that the new fees are the highest in the country for a state meat and poultry inspection program. Although Laws 2011, Ch. 36, allows the Department to continue increased fees through fiscal year 2012, the Department has not proposed new fees to the Legislature that would cover the cost of the program because Arizona Revised Statutes (A.R.S.) §3-2049 states that the cost of inspection shall be borne by the State.

Not implemented

See explanation for recommendation 2.2.

Not implemented

The Department reported that it had not yet implemented this recommendation because of uncertainty whether the State will retain the state meat and poultry inspection program.

Not implemented

According to department officials, the Department has evaluated its program efficiency since 2002 when the Department took its first budget reduction, and that program efficiency is evaluated as part of its continuous federal review. However, the Department could not provide documentation that it had reviewed program efficiency in connection with this recommendation.

Partially implemented

The Department considered the impact of raising fees and obtained industry input in setting the fiscal year 2011 fees. However, the Department reported that it had not yet discussed fee increases beyond fiscal year 2011.

Not yet applicable

See explanation for recommendation 2.2.

Finding 3: Department helps to ensure egg safety and quality

This finding contains 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.

Implementation in process

According to department staff, the Department's Good Agricultural Practices and Good Handling Practices (GAP/GHP) auditors encourage produce companies who seek certification to also complete the voluntary food defense portion of the audit, and the number of companies doing so has increased. The Department reported that three companies have passed the food defense portion of the audit. In addition, the Department has collaborated with the University of Arizona to develop a new GAP/GHP training course that includes information on food defense. The Department reported that training courses are being scheduled through October 2011.

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

According to department officials, 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. The Department also reported that it intends to investigate federal grant opportunities; however, because of budget cuts, it currently does not have the staff resources to do so.