

State of Arizona  
Office  
of the  
Auditor General

**PERFORMANCE AUDIT**

**ARIZONA  
DEPARTMENT  
OF  
AGRICULTURE  
COMMODITY DEVELOPMENT  
AND  
PROMOTION PROGRAM**

**Report to the Arizona Legislature  
By Debra K. Davenport  
Auditor General**

**September 2000  
Report No. 00-15**

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

September 21, 2000

Members of the Legislature

The Honorable Jane Dee Hull, Governor

Mr. Sheldon Jones, Director  
Arizona Department of Agriculture

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Agriculture's Commodity Development and Promotion Program. This report is in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

This is the sixth in a series of reports to be issued on the Arizona Department of Agriculture.

Recent studies, including one specifically of this Program, show promotion efforts often have little or no effect on fresh produce sales. While we found refocusing the Program's efforts on specialty crops and processed goods would provide the greatest likelihood for success, as outlined in its response, the Department does not agree with this finding.

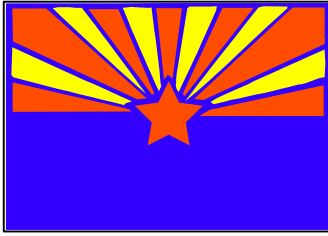
My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 22, 2000.

Sincerely,

Debbie Davenport  
Auditor General

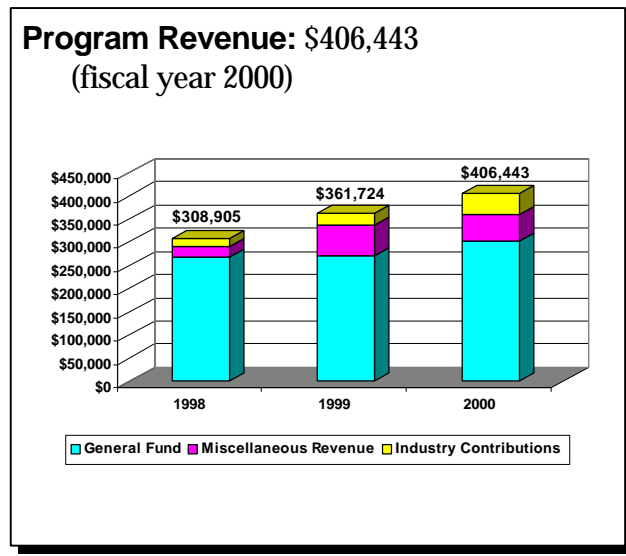
Enclosure



**Program Fact Sheet**

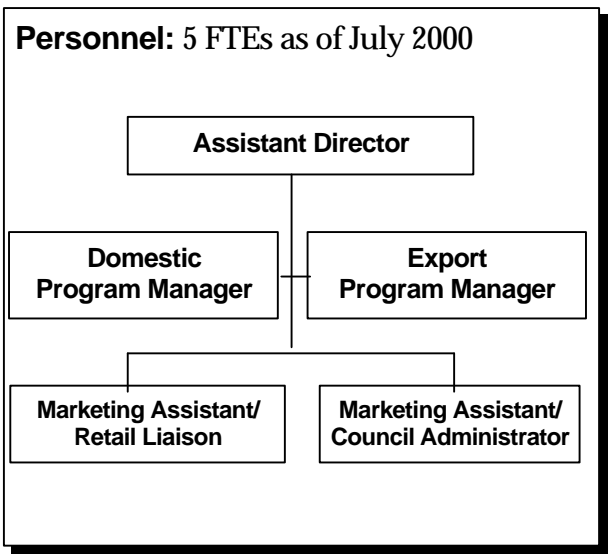
**Department of Agriculture  
Commodity Development and  
Promotion Program**

**Services:** The Commodity Development and Promotion Program performs the following services: 1) **Domestic Promotion**—Through Arizona Grown and other activities, familiarizes and educates retailers and consumers about Arizona agricultural products, works to increase the consumption of those products, and performs these same activities for Pride of Arizona, which specifically focuses on Arizona processed goods, such as salsa and wine; 2) **International export promotion**—Educates international importers, wholesalers, retailers, and consumers about the advantages of choosing Arizona products; 3) **Council administration**—Provides accounting, budgeting, and other administrative services to five agriculture councils and one board; and 4) **Certificate of Free Sale collection**—Collects fees for certificates that ensure commodities can be bought and sold freely domestically and abroad.



**Facilities:** The Program operates no facilities outside of the Department’s offices at the Capitol complex in Phoenix. The Program’s export manager generally operates from her home in southern Arizona.

**Equipment:** The Program owns only standard office equipment.



**Program Goals (Fiscal years 2000-2002)**

1. To stimulate the international sales of Arizona agricultural commodities and value-added products abroad.
2. To increase awareness of Arizona agricultural products through the **Arizona Grown** program.
3. To provide administrative support to Commodity Councils and the Agriculture Employment Relations Board (AERB).

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**Adequacy of Goals and Performance Measures:**

Several improvements could be made to the Department's 3 goals and 43 performance measures for its Commodity Development and Promotion Program.

- The Program's goals incorporate too many performance measures to effectively track performance. For example, the Department's goals for Arizona Grown include 24 measures, including a measure for the number of customers familiar with the Arizona Grown logo. This information is not collected by the Department on a regular basis. As a result, the Department may want to consider revising and condensing its goals and measures.

**Arizona Grown Logo**



- While the Department generally employs outcome, output, input, and quality measures, it employs only two measures tracking program efficiencies. As a result, the Department could adopt efficiency measures, such as comparing promotion expenditures to promotion benefits.

**Adequacy of Goals and Performance Measures: (Concl'd)**

Further, some of the Department's measurements need to be clarified. For example, one of the Department's efficiency measures records the number of "solid" trade inquiries, yet it does not define "solid."

Finally, the Department should develop goals and measurements specifically for its Pride of Arizona promotion activities. Since the Department recently initiated these activities, it has not had an opportunity to develop goals and measurements, but should consider developing a goal, and input, output, outcome, efficiency, and quality measures for these activities.

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## SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture's Commodity Development and Promotion Program pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2961 et seq, and is the sixth in a series of audits to be conducted on programs within the Arizona Department of Agriculture (Department).

The Commodity Development and Promotion Program promotes Arizona's agricultural products domestically and abroad. Arizona Grown, a key component of its domestic promotion efforts, seeks to familiarize and educate retailers and consumers about the quality and diversity of Arizona's agricultural products and to increase the consumption of these products. While Arizona Grown activities typically focus on promoting unprocessed agricultural goods, the Department recently created Pride of Arizona, which uses a portion of Arizona Grown funding to promote Arizona processed goods, such as salsa and wine. As part of the Arizona Grown efforts the Legislature appropriates \$50,000 annually to specifically fund joint agricultural industry/Department promotion projects. However, the Department cannot spend this money without receiving required matching dollars from the agricultural industry. The Department also dedicates approximately one of the Program's FTEs to support international promotion efforts by working with the Arizona agricultural industry to stimulate the export of Arizona farm and food products.

### **Refocusing Arizona Grown Activities Would Help Make It More Effective (See pages 7 through 15)**

As currently operated, Arizona Grown has limited impact. Studies of Arizona Grown and similar efforts in other states

indicate that they have little effectiveness unless they are focused in certain key ways. The key components for success include targeting Arizona specialty and processed products and purchasers who are likely to be most affected by the promotional efforts. However, Arizona Grown's efforts have been focused on fresh food commodities, such as lettuce and broccoli. Because the market for such commodities is primarily price competitive, promotions such as those sponsored under Arizona Grown tend to have little effect on consumer behavior. In addition, the Arizona Grown promotional efforts are not clearly focused. Instead, they are spread across many goals and purposes.

The Department should take several steps to increase the effectiveness of Arizona Grown efforts.

- **First**, the Department should develop a strategy for Arizona Grown's promotions that includes a focus on specialty and processed goods; and identifies and targets consumers who are more likely to purchase local products. Additionally, the Department should seek to support projects that are in line with this strategy.
- **Second**, the Department should measure the effectiveness of promotional activities to ensure they have a demonstrable impact. The Department can achieve this by incorporating an evaluation component into promotional projects.
- **Finally**, the Department should take steps to increase the available monies for Arizona Grown promotional projects by taking advantage of additional industry funding. The Department's General Fund appropriation requires that every dollar the Department spends on joint agricultural industry/Department promotional projects be matched by \$.50 from the industry. Based on the advice of its Attorney General representative, the Department believes this requires the State to pay one dollar for every \$.50 contributed by the industry for these projects. However, Auditor General legal counsel, Joint Legislative Budget Committee staff, and Legislative Council staff review of this requirement suggests it outlines a minimum industry contribution for Arizona Grown projects and does not prevent the industry from contributing

## ***Summary***

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additional monies. Nonetheless, the Department has turned down additional funds offered by industry because it did not have enough money to match them on a 2-to-1 basis.



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# INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture's Commodity Development and Promotion Program (Program) pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 et seq and is the sixth in a series of audits to be conducted on programs within the Arizona Department of Agriculture (Department).

## Commodity Development and Promotion Program

The Department's Commodity Development and Promotion Program operates under the following statutory mandate:

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*Department supports statewide and international agricultural promotions.*

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“The office of commodity development and promotion shall provide for programs to stimulate, educate, encourage, and foster the production and consumption of Arizona agricultural products domestically and abroad.”

To carry out this mandate, the Program employs a total of 5 FTEs to promote Arizona's agricultural products through a combination of statewide and international efforts that include two main activities:

- **Domestic promotion:** Through domestic promotions, the Program seeks to familiarize and educate retailers and consumers about the quality and diversity of Arizona's agricultural products and to increase the consumption of these products. A key component of its domestic promotion efforts is Arizona Grown. As part of Arizona Grown, the Program performs a variety of activities, such as encouraging the Arizona agricultural industry to use the Arizona Grown logo to help identify Arizona products, creating informational material, and jointly funding agricultural product promotions

with the agricultural industry. For example, during fiscal year 2000, the Program helped promote the Arizona agricultural industry and activities at two trade shows and one national conference, completed three promotional projects in cooperation with industry, helped organize a “January Winter Vegetable Promotion” and the “Yuma Lettuce Days,” and jointly funded an Arizona Grown spokesperson with the

**Figure 1: Arizona Grown Logo**



**Figure 2: Pride of Arizona Logo**



agricultural industry to promote Arizona agricultural goods. Additionally, the Program has recently developed a “Pride of Arizona” logo to distinguish the promotion of processed goods. Pride of Arizona, a component of Arizona Grown, seeks to increase the consumption and use of agricultural products, such as salsa and wine, that are made and/or processed in Arizona.

- **International Export Promotion:** Through international export promotions, the Program seeks to increase international trade of Arizona products and to educate international importers, wholesalers, retailers, and consumers about the advantages of choosing Arizona foods. During fiscal year 2000, the Program participated in trade shows, trade missions, and field tours, coordinated export missions, and produced bilingual educational materials to promote melons to Canada, livestock to Mexico, and fruits and vegetables to Japan, Hong Kong, Korea, and Mexico. Likewise, the Program offers assistance to Arizona exporters through coordinating international activities, assisting Arizona exporters with USDA requirements, linking foreign buyers with domestic sellers, and assisting the Arizona agriculture industry to pursue federal grants.

In addition to its two main promotional activities, the Program provides services to five agricultural entities. These entities collectively pay for one FTE who provides general support for the Program, but also spends approximately three-quarters of his time providing accounting and budgeting services to the Arizona Wine Commission, Arizona Grain Research and Promotion Council, Arizona Iceberg Lettuce Research Council, Arizona Citrus Research Council, and the Agricultural Employment Relations Board. As illustrated in Table 1 (see page 4), the Department receives over \$1.6 million annually on behalf of these commissions/councils and the Arizona Cotton Research and Protection Council. Each commission/council reimburses the General Fund for the Program's services based on agreements renegotiated annually.

Finally, the Program issues and collects fees for Arizona's Certificates of Free Sale. Some countries require these certificates before Arizona producers of processed foods, beverages, and animal feeds can sell their products abroad. By law, the fees that the Program charges cannot exceed the actual cost to prepare the Certificate of Free Sale.

## **Budget**

During fiscal year 2000 and as seen in Table 1 (see page 4), the Program received over \$301,000 from the General Fund, primarily for salaries and other operating and equipment expenditures. Of the \$301,000 appropriated to the Program, \$50,000 is earmarked for Arizona Grown promotions, approximately 20 percent of which also funds Pride of Arizona promotions. To ensure industry contributes to these promotions, businesses are required to contribute \$.50 for every \$1 in General Fund monies the Program spends. Any unmatched monies revert to the State General Fund. While in the past some unused monies were remitted back to the General Fund, in fiscal year 2000 all Arizona Grown appropriations were expended. Furthermore, the Program collected additional revenue from the commissions/councils to provide for

Table 1

**Arizona Department of Agriculture  
Commodity Development and Promotion Program  
Statement of Revenues and Expenditures  
Years Ended June 30, 1999 and 2000  
(Unaudited)**

	Program Operations		Commissions and Councils <sup>1</sup>		Program Total	
	1999	2000	1999	2000	1999	2000
Revenues:						
State General Fund appropriations	\$270,200	\$301,800			\$ 270,200	\$ 301,800
Charges for services:						
Cotton assessments			\$ 888,301	\$1,125,963	888,301	1,125,963
Grain assessments			209,500	139,490	209,500	139,490
Citrus assessments			153,921	91,806	153,921	91,806
Iceberg lettuce assessments			97,814	104,377	97,814	104,377
Other charges for services	43,884	42,380			43,884	42,380
Intergovernmental	5,000	5,000	133,648	165,186	138,648	170,186
Industry contributions	24,280	45,573			24,280	45,573
Fines and forfeits			25,134	14,871	25,134	14,871
Interest on investments			113,629	21,442	113,629	21,442
Other	18,360	11,690	7,945	18,538	26,305	30,228
Total revenues	<u>361,724</u>	<u>406,443</u>	<u>1,629,892</u>	<u>1,681,673</u>	<u>1,991,616</u>	<u>2,088,116</u>
Expenditures:						
Personal services and employee related	217,524	225,813	789,091	814,156	1,006,615	1,039,969
Professional and outside services	14,487	25,185	529,574	358,925	544,061	384,110
Travel	21,092	23,174	20,793	17,380	41,885	40,554
Other operating and equipment	105,292	102,982	1,001,599 <sup>2</sup>	634,699	1,106,891	737,681
Total expenditures	<u>358,395</u>	<u>377,154</u>	<u>2,341,057</u>	<u>1,825,160</u>	<u>2,689,452</u>	<u>2,202,314</u>
Excess of revenues over expenditures	3,329	29,289	(711,165)	(143,487)	(707,836)	(114,198)
Operating transfer in		7,000	7,273		7,273	7,000
Excess of revenues and operating transfers in over (under) expenditures	<u>\$ 3,329</u>	<u>\$ 36,289</u>	<u>\$ (703,892)<sup>3</sup></u>	<u>\$ (143,487)<sup>3</sup></u>	<u>\$ (700,563)</u>	<u>\$ (107,198)</u>

<sup>1</sup> Includes the Arizona Grain Council, Arizona Wine Commission, Arizona Iceberg Lettuce Research Council, Arizona Citrus Research Council, and Arizona Cotton Research and Protection Council. These entities were not within the scope of our audit.

<sup>2</sup> In 1999, changes to the facilities and equipment that the Arizona Cotton Research and Protection Council used for the aflatoxin production process caused additional equipment purchases as well as significant repair and replacement expenditures.

<sup>3</sup> Deficit amounts are primarily due to the Cotton Council using their available fund balance to pay expenditures.

Source: The Arizona Financial Information System Accounting Event Extract File and Status of Appropriations and Expenditures reports for the years ended June 30, 1999 and 2000.

administrative services and Certificate of Free Sale fees, which totaled approximately \$50,000 during fiscal year 2000.

## **Scope and Methodology**

This audit focuses on the Department's efforts to promote and develop opportunities for Arizona's agricultural products through Arizona Grown promotions. To determine the extent to which the Department fulfills these requirements, several methods were used, including:

- Examining several academic studies of commodity programs, literature regarding agriculture promotion programs, and material from national agriculture organizations to obtain information on the economic, social, and political benefits and drawbacks of commodity programs, as well as to gain information on components of effective promotional programs;
- Reviewing the federal grant requirements of state agriculture promotional activities and the federal mandates for "check-off" commodity programs to obtain information on federal requirements that aid in ensuring the most effective use of promotional programs' monies and activities;
- Obtaining information from 18 other states that employ agriculture development and promotion programs in order to compare them with Arizona's funding and activities;<sup>1</sup>
- Evaluating program budget and expenditure documentation, agreements with commodity councils, and joint ventures with industry, as well as planning documents such as strategic and marketing plans to obtain comprehensive information on the Department's monies, services, activities, and future plans;

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<sup>1</sup> The 18 states were California, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Montana, New Jersey, New Mexico, North Carolina, Rhode Island, South Carolina, Tennessee, and Virginia.



## ***Introduction and Background***

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- Interviewing experts and others involved in the agriculture industry and its promotion to obtain their perspective on the benefits and drawbacks of the Department's program. Interviewees included agriculture promotion evaluators; Arizona Department of Agriculture staff; Arizona agriculture industry and retail representatives; and national agriculture council representatives.

This report presents a finding and recommendations concerning the need for the Department to increase Arizona Grown's effectiveness by developing a strategy for Arizona Grown promotions that focuses on specialty products or processed goods, and consumers most likely to purchase local products, supporting those promotional projects that are in line with this strategy, and taking greater advantage of industry funding.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director and staff of the Department of Agriculture for their cooperation and assistance throughout the audit.

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## FINDING I

# REFOCUSING ARIZONA GROWN ACTIVITIES WOULD HELP MAKE IT MORE EFFECTIVE

As currently operated, Arizona Grown has little effect on consumers' awareness of Arizona products or on their buying preferences. Studies have found that promotional efforts like Arizona Grown have the greatest impact when focused on promoting specialty and processed agricultural products or when targeted to consumers who are more likely to purchase local products. However, Arizona Grown focuses most efforts on products that are not unique to Arizona. The Department should take steps to more effectively focus Arizona Grown activities, evaluate the impact of these activities, and increase industry contributions for these activities.

### Current Promotional Efforts Lack Key Components

Past studies of Arizona Grown and similar efforts in other states indicate that these efforts have little effectiveness unless they are focused in certain key ways. The key components for success include being able to target:

- Specialty and processed products produced in the state; and
- Purchasers who are likely to be most affected by the promotional efforts.

Arizona Grown does not meet these criteria. For the most part, it promotes fresh food commodities that are produced in many states or targets its promotional efforts to a variety of audiences.

***Studies identify approaches that fail and strategies that succeed***—Studies indicate that efforts such as Arizona Grown do not automatically produce marketing successes. These studies include one that focused specifically on Arizona Grown, and concluded that it had relatively little impact. Overcoming these

limitations, the studies found, meant focusing promotional activities in certain ways.

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*Promotions should stress specialty and processed, state-specific products.*

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- **Arizona Grown study**—A 1998 study found that Arizona Grown promotions have little to no effect on product sales and only a modest effect on consumer preferences.<sup>1</sup> Specifically, the study found that consumers were largely unaware of Arizona Grown, that in-store promotions conducted with state and industry monies had little to no effect on product sales, and that these promotions had only a modest effect on consumer preferences. One of the reasons was that the promotions focused on fresh food commodities, such as lettuce, oranges, and broccoli, that are grown in other states and countries and difficult to differentiate based on price and product characteristics.

Follow-up discussion with one of the study’s authors indicated that promotional efforts were likely to be more successful if they focused on specialty and processed Arizona products, such as Arizona-produced salsas and wines, as well as specific food service providers, such as “Arizona marketed” restaurants.

- **Indiana consumer analysis**—A study published in April 2000 that focused on a consumer survey in Indiana reported,

“Building a brand image which effectively differentiates food products by their place of origin can be a daunting task, since the market for fresh food commodities (especially fruits and vegetables) is overwhelmingly price competitive. While some producer groups have successfully differentiated particular commodities by their place of production (e.g., Florida

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<sup>1</sup> Olofsson, Hans, Paul M. Patterson, Timothy J. Richards, and Sharon Sass. An Empirical Analysis of State Agricultural Product Promotions: A Case Study of Arizona Grown. *Agribusiness*, 1999. 179-196.

Orange Juice, California Raisins, Washington Apples), most fresh produce commodities are homogeneous and compete primarily on price and easily perceptible quality differences.”<sup>1</sup>

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*Promotions should also target consumers who are more likely to purchase local products.*

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This study noted the importance of targeting promotional efforts based on consumer and product factors. It emphasized the need for state programs to identify and target those consumers with the highest likelihood of purchasing local products and to promote those commodities that ensure the largest possible return from promotional budgets. It cited the example of New Jersey tomatoes—a commodity examined in a different study.<sup>2</sup> This other study found there were few substitutes for these tomatoes and that consumer demand for the “Jersey Fresh” tomato does not change according to price. Identifying these types of factors contributed to New Jersey’s successful promotion program.

- **Agribusiness analysis**—A 1989 analysis of state agriculture promotional programs concluded that state commodity programs do not show clear economic impacts.<sup>3</sup> Like the two studies already cited, this study suggested that state-supported market promotion programs cannot succeed when they go against basic tenets of economic theory. It also concluded that the most successful agriculture promotion programs occur in states that produce specialty crops, as well as those that promote processed products. Consequently, commodity promotions with the most likelihood for success are those with products that are easily distinguishable.

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<sup>1</sup> Jekanowski, Mark D., William A. Schiek, and Daniel R. Williams II. Consumers’ Willingness to Purchase Locally Produced Agricultural Products: An Analysis of an Indiana Survey. *Agricultural and Resource Economics Review*, April 2000. 43-53.

<sup>2</sup> A.O. Adelajo, Bromfield, R.G. and Lininger, K. Product Differentiation and State Promotion of Farm Product. An Analysis of the Jersey Fresh Tomato. *Journal of Food Distribution Research* 21(3) 73-85.

<sup>3</sup> Halloran, John and Michael V. Martin. Should States be in the Agricultural Promotion Business? *Agribusiness*, 1989. 65-75.

***Arizona Grown approach does not center on successful strategies***—In contrast to the conclusions of these studies, the Department continues to focus most of Arizona Grown’s efforts on fresh food commodities rather than specialized Arizona products. Department officials estimate that during fiscal year 2000, over 80 percent of Arizona Grown’s monies were spent on promotional activities for fresh food commodities, such as lettuce and broccoli. For instance, during fiscal year 2000, Arizona Grown supported a winter vegetable promotion, a watermelon promotion, and the “Yuma Lettuce Days.” Because such efforts are directed at products that come from many sources and are not unique to Arizona, they are of limited usefulness in building consumer loyalty and increased sales.

Also in contrast to the study conclusions, the Department’s efforts encompass a wide variety of projects with diverse goals and purposes. For example, during fiscal year 2000, Arizona Grown’s limited resources supported trade show promotions ranging from an event aimed to develop economic opportunities with Dutch greenhouse companies, to a conference for farmers who directly market their products. Likewise, the Department’s commodity-based promotions varied from distributing 300 free watermelons and related informational materials, to a newsletter publication that supplied information about harvested dates to more than 500 consumers. In all, the efforts were spread across trade shows, media exposure, conferences, agriculture informational materials, retail product promotions, and agriculture festivals.

### **The Department Should Improve Arizona Grown’s Project Management**

The Department should take several steps to increase the effectiveness of Arizona Grown efforts.

- **First**, the Department should develop a strategy for Arizona Grown promotions that includes a focus on specialty or processed goods and identifies and targets consumers most likely to purchase local products. Furthermore, the Department should seek to support projects that are in line with this strategy.

- **Second**, the Department should assess the impact of these projects by developing processes to measure individual project effectiveness.
- **Finally**, the Department should take steps to increase the available monies for promotional activities by taking advantage of additional industry-provided funding.

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*Department should focus activities on specialty Arizona products and processed foods.*

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***The Department should reevaluate Arizona Grown’s focus***—The Department can improve the management of Arizona Grown’s promotional activities by continuing to develop specific areas of focus for these activities. While Department officials indicate that they have developed strategies for focusing Arizona Grown activities on retail and media-related efforts, these strategies do not include an emphasis on targeting specialty and processed products, or focusing on consumers likely to be affected by promotional efforts. Although the Department has taken initial steps in developing a “Pride of Arizona” logo to distinguish the promotion of processed products, few promotional activities focus on processed products.

The Department should then add guidelines to its joint venture application system that reflect these strategies. The Department recently developed and implemented a joint venture application process that includes guidelines for the selection of promotional projects. While these guidelines require industry groups to submit applications that describe the objectives of the proposed activity, the economic development potential of the activity, and the desired target market, these guidelines do not include an emphasis on strategies targeting specialty products or customers more likely to purchase local products. Expanding the guidelines within the application process to include project selection criteria will help ensure that proposed projects are aligned with these strategies developed for Arizona Grown. Also, by adopting these additional project selection criteria, the Department would have a way to decide which project applications represent the best use of the State’s money.

***The Department should measure Arizona Grown’s effectiveness***—To ensure projects selected for funding have a demonstrable impact, the Department should measure the effectiveness of its promotional activities. Experts note that examining pre- and post-sales figures from retail promotions is an effective way to

## ***Finding I***

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*Department should require evaluations for projects using large amounts of state monies.*

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measure the rate of return on the State's investments. Additionally, providing feedback on promotional projects not only measures the impact of these projects, but suggests which activities might be beneficial in the future. Currently, however, the Department does not require that its promotional activities include provisions for measuring outcomes. As a result, the Department participates in projects with only a limited understanding of how effective they are.

During fiscal year 2000, only one Arizona Grown project included provisions for measuring its effect on sales. In this case, the industry contributor, the National Pork Producers' Council, requires any project it funds to have an evaluation component. The \$12,000 project included \$9,000 for a media campaign and increased retail sales of Arizona pork in participating stores by approximately 43 percent during the promotion.

The Department should require grant recipients to evaluate the impact of their promotional efforts. Specifically, each grant proposal should include a requirement for the industry participant to measure the project's effectiveness. These evaluations could assess product sales before, during, and after a promotion or measure a promotion's impact upon consumer awareness. However, the Department should place the evaluation component of each grant in the context of the proposal's size. Complex evaluation requirements should not be required for promotional projects with minimal funding.

Other states look for the presence of an industry evaluation when they decide which projects to fund. The manager of the "Minnesota Grown" program considers the presence of an evaluation component a major factor in deciding whether to dedicate state funds to a project. Likewise, North Carolina requests that project participants report percentage growths for promotions and considers the evaluation of its activities a key program component.

***The Department should effectively use industry funds***—Finally, the Department should also increase available funding for Arizona Grown projects by taking advantage of additional funding that industry could contribute. Currently, the Department matches every \$0.50 contribution from industry with one dollar from its Arizona Grown fund. The Legislature appropriates

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*Department should take steps to increase industry contributions.*

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monies for Arizona Grown to support joint ventures with the private sector and requires that each dollar expended by the Department be matched by at least \$0.50 from industry.<sup>1</sup> Our legal counsel, Joint Legislative Budget Committee (JLBC) staff, and Legislative Council staff interpret this requirement to outline a minimum industry contribution for Arizona Grown projects, a requirement that does not preclude industry from contributing additional monies. However, based on its Attorney General representative's advice, the Department has concluded that this provision means that it must pay two-thirds of every project. As a result, the Department has declined significant industry contributions. For example, during fiscal year 2000, an industry representative proposed contributing \$3,000 toward a project to promote a quality assurance program for Arizona beef. However, the Department limited industry's contribution to \$2,000 because it had only \$4,000 available.

Therefore, to increase funding for Arizona Grown activities, the Department should use its Arizona Grown matching funds in a manner that does not restrict industry contributions. Additionally, the Department should more efficiently leverage state monies through its joint venture application system by possibly requiring a higher minimum level of industry contributions and favoring those proposals that contain more significant industry participation. Specifically, other states set higher minimum matching amounts for industry contributions in order to more effectively use state monies. For example, both Massachusetts and New Jersey require participants to match or exceed the amount of the grant being requested. Additionally, Montana requires a minimum 1:1 applicant funding match for all projects, while proposed projects with contributions exceeding the 1:1 level may have an advantage in being selected.

To facilitate compliance with the original intent of the Arizona Grown matching funds and begin seeking additional industry contributions for this current fiscal year, the Department might

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<sup>1</sup> General Appropriations Act footnote. *"Of the Operating Lump Sum appropriation in FY 2000 and FY 2001, the sum of \$50,000 is appropriated in both fiscal years for the Arizona Grown Promotion Program. Every dollar expended by the Department of Agriculture for the Arizona Grown Program shall be matched by \$0.50 in contributions from the private sector. Any unmatched monies revert to the state General Fund."*



***Finding I***

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consider soliciting a formal opinion on the General Appropriations Act footnote from the Attorney General's Office. Additionally, the JLBC should consider further clarifying the footnote in the next appropriations bill by specifying that the private sector should contribute a *minimum* of \$0.50 for every dollar expended by the Department.

## **Recommendations**

1. The Department should develop strategies for its agricultural promotional and/or developmental activities that include a focus on specialty Arizona products and processed foods; and targets consumers most likely to purchase local products.
2. Within its joint venture application system, the Department should establish additional criteria for project consideration that reflect the strategies developed for Arizona Grown promotional activities and seek to support projects that meet this criteria.
3. The Department should require that promotional projects include provisions for assessing and measuring the project's results.
4. The Department should increase industry contributions to Arizona Grown by correctly matching and leveraging appropriated Arizona Grown monies. The Department should change its practice for matching industry contributions so that the industry contribution of \$.50 for every \$1 from the Arizona Grown fund is considered as a minimum contribution rather than a fixed amount.
  - a. To facilitate implementation of this recommendation, the Department should consider soliciting a formal opinion on the General Appropriations Act footnote governing the expenditure of state monies for Arizona Grown promotional activities from the Attorney General's Office.
  - b. The Joint Legislative Budget Committee staff should consider revising the footnote to future appropriations bills to specify that the private sector contribute a *minimum* of \$.50 for every dollar expended by the Department.
5. The Department should incorporate criteria into its joint venture application system that emphasize the selection of projects with larger industry contributions.

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## Agency Response

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September 12, 2000

The Honorable Debra K. Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

Enclosed is the Arizona Department of Agriculture's response to the Office of Commodity Development and Promotion audit.

We extend our appreciation to the audit team for their professionalism and attention to detail. I certainly appreciate their willingness to seek out the Department's input and clarification of some of the issues identified in this report.

Sincerely,

A handwritten signature in black ink that reads "Sheldon R. Jones". The signature is written in a cursive style with a large initial "S".

Sheldon R. Jones  
Director

## **AUDITOR GENERAL'S RECOMMENDATIONS AGENCY RESPONSE**

### **Overview:**

The Arizona Department of Agriculture would like to thank the Auditor General's staff for the professional manner in which the audit was performed.

We believe the Department, while it continues to identify methods of improving its delivery of service to Arizona's growing agricultural industry and the public as a whole, is a good example of how government should strive to work. We take very seriously our mission and our charge to regulate and support Arizona agriculture in manner that promotes farming, ranching and agribusiness while protecting consumers and natural resources.

While this cabinet level agency was created only ten years ago, to serve and regulate Arizona's agriculture industry, a number of things have and continue to change about the industry we serve. Foremost is the changing face of our customers, which reflects the industry as a whole. Arizona is internationally renowned for its diverse agricultural production. From artichokes to cattle, cotton and citrus to shrimp and watermelons, Arizona is continuously increasing its agricultural diversity. It is entirely fascinating to observe the customers that call on us every day. The Department is constantly asked to service more than the program crops of wheat, cattle, cotton and dairy. Ten years ago, the aquaculture, ratite, custom slaughter, wine and massive nursery industry did not exist as they do today. Because of the changing face of our customers and the public's demands for faster, more efficient service, the Department recognizes more must be done to meet the challenges we face today and those we will face in the future.

The Department appreciates the attention the Auditor General's staff has paid to the unique responsibilities and critical functions of the Office of Commodity Development and Promotion. As the report only highlights, the program maintains an award-winning international trade export unit in addition to the domestic marketing efforts of the highly documented *Arizona Grown* program.

It is disappointing that this report finds that the Department's promotion efforts are too focused on marketing fresh commodities. If the overwhelming amount of agricultural products produced in Arizona were not fresh commodities, which they are, then perhaps the Auditor General's finding would have more practical merit. Unfortunately that is not the case and the Department is placed in a position where it cannot agree to provide priority marketing assistance to a few processed-good companies over the thousands of growers who secure Arizona's place as a leading fresh commodity state. When the paradigm shifts, and Arizona begins producing more processed or value-added products than fresh, bulk commodities, the Department will see to it that *Arizona Grown* promotions reflect the shift proportionately and consistently.

*Finding: Refocusing Arizona Grown Activities Would Help Make It More Effective*

**Recommendation I:** The Department should develop strategies for its agricultural promotional and/or developmental activities that include a focus on specialty Arizona products and processed foods; and targets consumers most likely to purchase local food products.

*Agency Response: The finding of the Auditor General is not agreed to and the audit recommendation will not be implemented.*

**Agency Explanation:**

The Department agrees that its strategies to target consumers most likely to purchase local products warrant further improvements and will soon be amended to more adequately measure the performance of its promotions. It is important to note, however that the “Arizona Grown” study the audit team refers to throughout this report found that 76% of the consumers surveyed “indicated that they would prefer a product grown in Arizona, expressing the belief that these products would be fresher or of higher quality.” Further, the report finds that Arizonans living in metropolitan Phoenix are likely to purchase locally grown products. Based upon that empirical study, the Department believes its branded logo program is already targeted toward a “willing” market. The chore we face is increasing the public’s recognition of the *Arizona Grown* logo.

Also, the Department thoroughly disagrees with the report’s suggestion to redirect Arizona Grown promotional activities to showcase Arizona products and processed foods that are “unique” to Arizona. Such a suggestion suggests that the entirety of Arizona’s \$6.3 billion agriculture industry is not worth showcasing. Further, the report mistakenly asserts that products like wine and salsa are unique to Arizona when they are, in fact, not unique at all. The Department will not allow itself to be placed in a position to pick and choose generally which commodities or products warrant promotion. Such selectivity would appear random and discriminatory to the 2,000+ producers in this State.

**Recommendation II:** Within its joint venture application system, the Department should establish additional criteria for project consideration that reflect the strategies developed for Arizona Grown promotional activities and seek to support projects that meet this criteria.

*Agency Response: The finding of the Auditor General is not agreed to but the audit recommendation will be implemented.*



**Agency Explanation:**

Again, the Department disagrees to the finding. However, with respect to the recommendation, the Department has already proposed to the auditors its plans to implement the joint venture system as a competitive method to select Arizona Grown promotions. As this is the case, fixed criteria is being created pursuant to R3-6-202 and will reflect the goals and strategic direction of the Department's marketing efforts.

**Recommendation III:** The Department should require that promotional projects include provisions for assessing and measuring the results of the project.

*Agency Response: The finding of the Auditor General is not agreed to and the audit recommendation will be implemented pursuant to the existing Administrative Rule.*

**Agency Explanation:**

Again, the Department disagrees to the finding. However, with respect to the recommendation, the Department has already proposed to the auditors its plans to implement a grant application system. As this is the case, fixed criteria is being created pursuant to R3-6-202 and will, of course, require that promotional projects include sufficient performance measures.

**Recommendation IV:** The Department should increase industry contributions by correctly matching and leveraging appropriated Arizona Grown monies. The Department should change its practice for matching industry contributions so that the industry contribution of \$.50 for every \$1 from the Arizona Grown fund is considered as a minimum contribution rather than a fixed amount.

- a. To facilitate implementation of this recommendation, the Department should consider soliciting a formal opinion on the General Appropriations Act footnote governing the expenditure of state monies for Arizona Grown promotional activities from the Attorney General's Office.
- b. The Joint Legislative Budget Committee staff should consider revising the footnote to future appropriations bills to specify that the private sector contribute a minimum of \$0.50 for every dollar expended by the Department.

*Agency Response: The finding of the Auditor General is not agreed to and the audit recommendation will not be implemented.*

**Agency Explanation:**

Again, the Department disagrees to the finding and the recommendation because it inaccurately states the Department has discretion in the manner through which it appropriates Arizona Grown funds. While the Auditor General's staff attorney opined that the Department's allocation of Arizona Grown funds is subjective, the Department has been advised by its attorneys (two Assistant Attorney Generals) that the General Appropriations Act footnote mandates the Department to assign one dollar for every \$0.50 contributed by the private sector.

The Department agrees that the appropriation could be stretched further if a 2-to-1 ratio of matching funds was not required. The statute, in this case, however does not at all state, imply or infer that the \$0.50 private sector contribution for every \$1 from the Arizona Grown fund is, as the Auditor General believes, a "minimum" contribution. The language provided to the Legislature from the Joint Legislative Budget Committee is quite clear, and we see no need to seek a formal opinion from the Attorney General's office.

**Recommendation V: The Department should incorporate criteria into its grant application system that emphasize the selection of projects with larger industry contributions.**

*Agency Response: The finding of the Auditor General is not agreed and the audit recommendation will not be implemented.*

**Agency Explanation:**

Unless the language in specifying the matching funds for the Arizona Grown fund is changed to reflect that a 2-to-1 ration need not be maintained, the Department of Agriculture cannot incorporate criteria into its grant application system that emphasizes the selection of projects with larger industry contributions.

Should the Legislature revise the statute governing the Arizona Grown fund to reflect the Auditor General's opinion, the Department will develop criteria that is consistent with the new mandate.

## Other Performance Audit Reports Issued Within the Last 12 Months

99-16	Department of Building and Fire Safety	00-4	Family Builders Pilot Program
99-17	Department of Health Services' Tobacco Education and Prevention Program	00-5	Department of Agriculture—Licensing Functions
99-18	Department of Health Services—Bureau of Epidemiology and Disease Control Services	00-6	Board of Medical Student Loans
99-19	Department of Health Services—Sunset Factors	00-7	Department of Public Safety—Aviation Section
99-20	Arizona State Board of Accountancy	00-8	Department of Agriculture—Animal Disease, Ownership and Welfare Protection Program
99-21	Department of Environmental Quality—Aquifer Protection Permit Program, Water Quality Assurance Revolving Fund Program, and Underground Storage Tank Program	00-9	Arizona Naturopathic Physicians Board of Medical Examiners
99-22	Arizona Department of Transportation A+B Bidding	00-10	Department of Agriculture—Food Safety and Quality Assurance Program and Non-Food Product Quality Assurance Program
00-1	Healthy Families Program	00-11	Arizona Office of Tourism
00-2	Behavioral Health Services—Interagency Coordination of Services	00-12	Department of Public Safety—Scientific Analysis Bureau
00-3	Arizona's Family Literacy Program	00-13	Arizona Department of Agriculture Pest Exclusion and Management Program
		00-14	Arizona Department of Agriculture State Agricultural Laboratory

## Future Performance Audit Reports

Arizona Department of Agriculture—Sunset Factors

Arizona Department of Agriculture—Pesticide Compliance and Worker Safety Program

Arizona State Boxing Commission