



State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**ARIZONA
DEPARTMENT
OF
AGRICULTURE
LICENSING FUNCTIONS**

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

May 2000
Report No. 00-5

The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. His mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, he provides financial audits and accounting services to the state and political subdivisions and performance audits of state agencies and the programs they administer.

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

May 18, 2000

Members of the Legislature

The Honorable Jane Dee Hull, Governor

Mr. Sheldon R. Jones, Director
Arizona Department of Agriculture

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Agriculture—Licensing Functions. This performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. The review of the Department's Licensing Functions is consistent with the June 16, 1999, resolution of the Joint Legislative Audit Committee requiring the Auditor General to review seven of the Department's ten programs. All seven of these programs issue licenses.

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

As outlined in its response, the Department of Agriculture agrees with all of the findings and recommendations.

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

This report will be released to the public on May 19, 2000.

Sincerely,

A handwritten signature in black ink that reads "Debbie Davenport".

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture—Licensing Functions. This audit was conducted as a part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957 and is the first in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

In 1989, the Legislature passed Laws 1989, Chapter 162, establishing the Department of Agriculture to provide for a uniform and coordinated agricultural program and policy in the State. Prior to its formation, most of the Department’s duties were carried out by four smaller state agencies: the Arizona Commission of Agriculture and Horticulture, the Arizona Livestock Board, the State Egg Inspection Board, and the State Dairy Commissioner. The Department assumed many regulatory responsibilities from these previous state agencies, including the responsibility for issuing over 70 different licenses, permits, and certificates.

The Department’s Licensing Functions Should Be Centralized (See pages 9 through 15)

The Department should centralize its various licensing functions to improve efficiency, customer service, and management oversight of the licensing process. Since its formation in 1991, the Department has employed a decentralized process to issue its licenses, permits, and certificates. Currently, the Department maintains 12 separate licensing functions to issue these licenses. This fragmented approach to licensing has led to a number of inefficiencies and weaknesses, including duplication of personnel and other resources, increased financial risk due to inappropriate cash-processing controls, and poor customer service. For example, licensees holding more than one of the 70 kinds of licenses may need to complete multiple forms, interact with

The Department has 12 separate licensing functions.

different Department personnel, and make several payments at different times to obtain all needed licenses. By centralizing its licensing functions, the Department can reduce these redundancies and enhance customer service.

The Department estimates that it should take between 12 to 16 months to fully centralize its licensing functions. While undertaking this effort, the Department should consider and address several factors. First, the Department will need to consider its data needs and determine what type of automated system will best meet those needs. Currently, the Department maintains over 30 different licensing databases. However, Department management has indicated that it would prefer implementing a single database to handle its licensing needs, and it should work with the Government Information Technology Agency to assess the cost and feasibility of such a database. Second, the Department should develop a licensing policies and procedures manual and train assigned licensing staff on licensing policies and procedures before licensing is centralized. Third, the Department should review the current expiration dates of its licenses, permits, and certificates to ensure the centralized unit's processing would be more evenly dispersed throughout the year. Currently, the majority of the Department's licenses expire in June, September, or December.

Regardless of whether the Department centralizes licensing, it should adopt appropriate cash-processing controls including adequately segregating duties; restrictively endorsing checks and money orders immediately upon receipt; making daily deposits; and reconciling receipts to deposits to strengthen its control over cash receipts.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture—Licensing Functions. This audit was conducted as a part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957 and is the first in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

Department History and Mission

In 1989, the Legislature passed Laws 1989, Chapter 162, establishing the Department of Agriculture to provide for a uniform and coordinated agricultural program and policy in the State. Prior to its formation, most of the Department’s current duties were carried out by four smaller state agencies: the Arizona Commission of Agriculture and Horticulture, the Arizona Livestock Board, the State Egg Inspection Board, and the State Dairy Commissioner.

The Department began operating as a state agency on January 1, 1991, and has defined its mission as:

“To regulate and support Arizona agriculture in a manner that encourages farming, ranching, and agribusiness while protecting consumers and natural resources.”

Department Issues Over 70 Types of Licenses

Among the many regulatory responsibilities the Department assumed from the previous state agencies is the responsibility for issuing over 70 different licenses, permits, and certificates. The Department issues these licenses through eight of its ten programs. The two remaining programs, Administrative Services

Eight different programs issue licenses, permits, and certificates.

and Agricultural Consultation and Training, do not have licensing activities. Listed below are the eight programs involved in licensing and the types of licenses each issues (see Table 1, pages 3 through 5, for a complete list of all license groups; together with the number of licenses issued in fiscal year 1999, the number of staff involved in the licensing process, and the fee for each license).

- **Food Safety and Quality Assurance (27 Licenses)**—This program issues various licenses to ensure that the public food supply meets established standards for safety and quality. For example, the program issues licenses to meat processing facilities, dairies, and egg producers, and fresh produce growers, packers, and shippers.
- **Animal Disease, Ownership and Welfare Protection (7 Licenses)**—This program licenses livestock feedlots, registers livestock brands, and issues livestock hauling permits as part of its efforts to monitor and regulate livestock health, ownership, and movement.
- **Pesticide Compliance and Worker Safety (10 Licenses)**—This program provides testing and issues licenses, permits, and certificates to ensure that agricultural pesticide applicators are qualified and that pesticides are used, stored, transported, and disposed of properly. For example, the program issues permits to pesticide sellers and certificates to pesticide applicators.
- **Non-Food Product Quality Assurance (9 Licenses)**—This program helps to ensure the quality of animal feeds, fertilizers, pesticides, hay (forage), and seed by licensing feed and fertilizer manufacturers and distributors, seed dealers and labelers, and hay brokers. In addition, the Department registers pesticide and specialty fertilizer registrations.
- **Pest Exclusion and Management (9 Licenses)**—This program works to ensure the provision of pest-free agricultural products and to protect the public from agricultural pests. As such, the Pest Exclusion program issues federal phytosanitary certificates, which certify that a particular shipment of agricultural products is pest-free and enables the shipper to

Table 1

**Arizona Department of Agriculture
Licenses Issued, Associated Fees, and Number Issued
Year Ended June 30, 1999
(Unaudited)**

Licenses, Certificates, Registrations, and Permits by Program; FTE by Group	Fees	Number Issued
Food safety and quality assurance		
<i>Aquaculture (less than 1 FTE)</i>		
Aquaculture Processor	\$100	15
Aquaculture Facility	100	26
Fee Fishing	100	8
Special Licenses	10	11
Transporter Licenses	100	25
<i>Citrus, fruit, and vegetable (less than 1 FTE)</i>		
Citrus Fruit Dealer—Packer/Shipper License	150 to 450	42
Fruit & Vegetable Contract Packers License	200	58
Fruit & Vegetable Dealer	200 to 500	372
Fruit & Vegetable Shipper's License	200 to 500	52
Citrus Fruit—Experimental Containers	no fee	3
Fruits & Vegetables—Experimental Containers	no fee	0
<i>Dairy and Egg (less than 1 FTE)</i>		
Dairy Sampler License (New/Renewal)	5/1.50	66/110
Milk Tester License	1.50	0
Milk Distributing Plant	50	6
Producer /Distributor Milk Processing Plant	25	3
Wholesale /Distributor (New/Renewal)	25/25	4/42
Plant Licensing—Manufacturing	50	8
Egg & Egg Product	25	97
<i>Meat and Poultry Inspection (less than 1 FTE)</i>		
Meat Processing Plant License	10	94
License to Slaughter	5 to 80	47
Official Slaughter Meat License—Horse	5 to 80	0
Rendering Facility Certification	10	5
Sale or Exchange of Meat or Poultry—Distributors	10	91
Transfer of License	10	0
Transfer of License Without Fee	No fee	0
Ratite Slaughterhouse Registration	100	5
Ratite Wholesale Processing Registration	25	5
Animal disease, ownership and welfare protection		
<i>Brands (1 FTE)</i>		
Brand Registrations	50 to 75	n ¹

¹ The program's database was unable to isolate the number of licenses issued during fiscal year 1999. Between May 1998 and February 2000, the number of registered brands increased by 650.

Table 1 (cont'd)

**Arizona Department of Agriculture
Licenses Issued, Associated Fees, and Number Issued
Year Ended June 30, 1999
(Unaudited)**

Licenses, Certificates, Registrations, and Permits by Program; FTE by Group	Fee	Number Issued
Animal disease, ownership and welfare protection (concl'd)		
Equine (4 FTEs)		
Equine Hauling Permits	5	14,467
Equine Ownership Transfer Certificates	5	21,727
Equine Trader Permit	100	15
Other Livestock (less than 1 FTE)		
Beef Cattle Feedlot License	25 to 150	27
Livestock Import Permit	No fee	12,439
Swine Garbage Feeder License	5	1
Pesticide compliance and worker safety		
Pesticide Compliance (less than 1 FTE)		
Pesticide Grower's Permit	\$ 20	1,297
Pesticide Seller's Permit	100	189
Agricultural Aircraft Pilot License	50	75
Custom Applicator License	100	61
Custom Application Equipment Tag	25	192
Agricultural Pesticide Control Advisor License	50	268
Commercial Applicator Certification	50	222
Private Applicator Certification	50	569
Government Applicator	No fee	99
Trainer Certification	No fee	239
Non-food product quality assurance		
Fertilizer (less than 1 FTE)		
Commercial Fertilizer License	125	328
Specialty Fertilizer Registration	50	1,890
Commercial Feed License—Distributor/Manufacturer	10	557
Sampler Certification	No fee	0
Seed/Hay (less than 1 FTE)		
Hay Broker License	10	62
Seed Dealer License	25	900
Seed Labeler License	40	181
Pesticide (less than 1 FTE)		
Pesticide Registration	100	9,125
Experimental Use Permit	No fee	12
Pest exclusion and management		
Nursery/Phytosanitary (less than 1 FTE)		
Arizona Certified Nursery Inspection	30	88
Ozonium Root Rot Inspection—Indicator Crops/Applicant's Property	50	3
Ozonium Root Rot Inspection—Indicator Crops/Surrounding	50	0

Table 1 (concl'd)

**Arizona Department of Agriculture
Licenses Issued, Associated Fees, and Number Issued
Year Ended June 30, 1999
(Unaudited)**

Licenses, Certificates, Registrations, and Permits by Program; FTE by Group	Fee	Number Issued
Pest exclusion and management (concl'd)		
Ozonium Root Rot Inspection—Method of Growing	50	5
Single Shipment Inspection for Nursery Products	10	124
Special Nursery Certification—Entire Nursery	30	68
Special Nursery Certification—Partial Nursery	20	2
Phyosanitary Field Inspection Certification	Varies ¹	396
Quarantine (less than 1 FTE)		
Citrus Nursery Stock Pests	No fee	422
Native plant and cultural resources protection		
Native Plant (less than 1 FTE)		
Non-Fee Permits to Move Cactus	No fee	55
Scientific	No fee	10
Municipalities ²	No fee	8
Blue Seal	5	539
Harvest Restricted	25	10
Notice of Intent	No fee	335
Salvage Assessed	25	13
Salvage Restricted	5	868
State agricultural laboratory		
Laboratory (less than 1 FTE)		
Laboratory Certification (New/Renewal)	200/100	0/5
Office of commodity development and promotion		
Market Development and Promotions (less than 1 FTE)		
Certificate of Free Sale	25 ³	314

¹ Price varies by commodity and acreage inspected.

² Municipalities are salvage-restricted permits that pay no fees.

³ Per 100 consumable products listed.

Source: Auditor General staff analysis of license, permit, and certificate information obtained from the Department's annual reports from fiscal years 1992 through 1999; interviews with Department staff involved in licensing activities; and reviews of licensing data from each program issuing licenses.

export these products to other countries. In addition, the program issues certificates to plant nurseries certifying that they are free from specific pests.

- **Native Plant and Cultural Resources Protection (8 Licenses)**—With its mission to protect and conserve Arizona’s native plants, historical sites, and other natural resources, this program regulates the harvesting, transporting, and sale of native plants by issuing permits to anyone who wishes to remove a protected native plant from its habitat.
- **State Agriculture Laboratory (1 License)**—The Laboratory certifies other laboratories that it contracts with to provide service to the Department.
- **Office of Commodity Development and Promotion (1 License)**—This program issues Certificates of Free Sale, which confirm that products listed on the certificate are sold free and clear in the United States, to foster the domestic and international consumption of Arizona agricultural commodities.

Department’s Licensing System Is Decentralized

After the four state agencies that today comprise the Department of Agriculture were merged in 1991, some basic functions, such as accounting, purchasing, and personnel, were centralized. The licensing functions of the newly formed Department, however, were not centralized because they were viewed as core responsibilities of the merged organizations. The licensing function is decentralized even further within individual programs. For example, the Food Safety and Quality Assurance program has separate functions and separate personnel to issue licenses for egg and dairy, meat and poultry, and fresh produce.

The Department recently began looking into the possibility of centralizing all of its licensing functions in an effort to improve customer service and allow the Department to better utilize its resources. The Department has appointed a task force, which began meeting in mid-March 2000 to study the steps that must be taken to centralize the Department’s licensing functions.

Scope and Methodology

This audit focuses on the efficiency and effectiveness of the Department's current decentralized method of issuing licenses, permits, and certificates. Several methods were used to study this issue, including:

- Reviewing various reports, including the Department's annual reports from fiscal year 1992 to fiscal year 1999 and the Department's fiscal year 2000–2002 strategic plan, and pertinent statutes and rules to determine which licenses, permits, and certificates the Department is mandated to issue.
- Analyzing Uniform Statewide Accounting System data to document the total revenue generated by all Department licenses, permits, and certificates for fiscal years 1997, 1998, and 1999.
- Reviewing literature regarding centralization of various organizational functions to study the potential benefits and drawbacks of a centralized licensing function.
- Interviewing Department employees involved in licensing and reviewing their Position Description Questionnaires (PDQ) to determine and assess the processes used to issue licenses, permits, and certificates as well as collect associated fees, and the percentage of time employees spend on the licensing function. Also, discussing with Department management the factors that would need to be considered before implementing a centralized licensing system.
- Surveying other entities that issue various licenses, permits, and certificates through a centralized licensing function, including the State of Montana's Department of Agriculture as well as Arizona's Department of Health Services, Department of Liquor Licenses and Control, and the Registrar of Contractors to gather information on these entities' experiences with centralized licensing functions.¹

¹ The Montana Department of Agriculture was contacted because it was the only Western state identified that issues various agricultural-related licenses, permits, and certificates through a centralized system.

Introduction and Background

This report presents one finding along with recommendations, addressing the need for the Department to centralize its licensing functions.

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.

FINDING I

THE DEPARTMENT'S LICENSING FUNCTIONS SHOULD BE CENTRALIZED

Decentralized licensing leads to duplication, greater risk of loss or theft, and less efficient customer service.

The Department should centralize its licensing functions. The Department's current decentralized licensing approach causes duplication of effort, exposes receipts to greater risk of loss or theft, and lessens the Department's ability to make licensing as easy as possible for the customer. Centralizing the licensing function offers the Department the opportunity to better manage and allocate its staff resources so that operations can become more efficient and risk can be reduced. It also provides opportunities to better serve customers by simplifying the process. To prepare for a centralized approach, the Department needs to address its data processing needs, establish clear procedures for its staff to follow, and better balance the cyclical nature of its licensing workload.

Decentralization Weakens the Department's Effectiveness

The Department has had a decentralized licensing process since its creation in 1991. This approach has led to a number of inefficiencies and weaknesses, including duplication of effort, greater financial risk for the State, and a diminished ability to provide good customer service. Specifically:

- **Duplication of Effort**—The Department's decentralized licensing approach divides licensing responsibilities among many employees. Currently, 17 employees within the various programs that process licenses receive and review license applications for completeness, collect the associated fees, enter the application information into a computerized database or a manual recording system, and issue a completed license to an applicant.¹ Six of these employees work on licensing activities full-time, while the remaining 11 employees spend 5 to 40

¹ This number does not include management or administrative employees who oversee licensing functions.

Finding I

percent of their time on licensing tasks. Because most of the 17 employees devote only part of their time to licensing, the time devoted to licensing equals approximately 8 FTEs. Department management agrees that too many employees issue licenses within the Department and centralization would allow some licensing personnel to be reassigned other duties.

The Department uses over 30 databases for licensing.

One outgrowth of the divided responsibilities is considerable duplication of tasks. Each licensing function has its own computerized database or manual recording system for storing and tracking licensing data, resulting in duplicate data entry. Currently, there are over 30 databases being used for licensing purposes throughout the Department. As a result, basic data, such as name, address, and type of business for customers requiring multiple licenses must be separately entered into each applicable database. A review of data from 11 different licensing databases revealed over 300 licensees who were included in two or more of these databases because they require multiple licenses. For example, one customer is separately licensed as an egg producer and a hay dealer, but also holds feed and fertilizer licenses as well as livestock hauling permits. Therefore, data on this customer is entered into at least five different databases.

Inadequate controls place \$1.5 million in licensing fees at risk for theft or misappropriation.

- **Increased Financial Risk**—The decentralized licensing process also increases the Department’s exposure to risk for theft or misappropriation. Most of the Department’s licensing functions have only one employee assigned to handle all aspects of the licensing process, including fee collection. Thus, the fees for these licenses or licensing functions are received, processed, and deposited by the same person. This practice does not allow the Department to properly segregate cash receipt duties for fee collection. For example, the employee who processes citrus, fruit, and vegetable licenses collected over \$195,000 in license fees during fiscal year 1998-99. Because fee collection duties are not properly segregated for any of the Department’s licensing functions, this places the over \$1.5 million the Department received in total licensing revenue during fiscal year 1998-99 at greater risk for possible theft or misappropriation. In addition, receipts are typically not reconciled to deposits to ensure that all monies received were deposited and credited to the appropriate program and revenue category.

- **Diminished Customer Service**—The Department’s current licensing approach hinders effective customer service in several ways. First, processing delays or backlogs can result from assigning only one employee to handle a specific license or license group, especially if that employee is absent from work for any length of time. Currently, the Department has a limited number of staff who are cross-trained to issue licenses in the absence of any of the ten employees who work alone to process licenses.

Another way in which decentralization hinders effective customer service is the added degree of effort involved for customers who go through the licensing process. Customers requiring various licenses must contact different employees throughout the Department for each license required, potentially resulting in confusion or frustration. In addition, these customers must fill out the same types of information on different forms for each license sought. In contrast, the Arizona Department of Liquor Licenses and Control currently uses 4 licensing forms to issue 16 different licenses through its centralized licensing function.

Centralization Would Improve Efficiency

Centralizing the Department’s various licensing functions would improve customer service and management oversight, and eliminate processing redundancies.¹ In this instance, centralization offers the following benefits:

- **Better Allocation of Staff Resources**—Centralization would enable the Department to more efficiently and effectively use its staffing resources. Specifically, the Department

¹ According to the Department, while virtually all of its licensing and/or permitting functions can be centralized, a few of its licenses and/or permits would not be conducive to centralization. For example, certain Pest Exclusion and Management Program quarantine permits cannot be issued without the technical expertise of State Agricultural Laboratory personnel as well as other Department personnel. Thus, the staff of a centralized licensing unit would not have the expertise needed to issue these permits.

could reduce the number of staff assigned to licensing, freeing positions for other responsibilities and allowing the remaining licensing staff to develop greater expertise in this area.

- **Improved Control over Receipts**—A centralized licensing system would allow the Department to strengthen its control over cash receipts by properly segregating the duties of receiving, processing, and depositing licensing fee payments among the employees within the licensing area.
- **Streamlined Administrative Processes**—Centralization would allow the Department to implement a single licensing database instead of the multiple databases it currently uses, providing a single source for collecting and reporting licensing data. It would also allow the Department to develop uniform licensing policies and procedures to ensure that all licenses are processed and issued in an appropriate and consistent manner.
- **Better Customer Service**—Centralizing the licensing function would also allow the Department to improve its customer service efforts. Customers would no longer need to go to multiple places, fill out as many forms, or face possible licensing delays due to employee absences.

Regardless of whether the Department centralizes the licensing function, it should take several other steps to strengthen its control over cash receipts. For instance:

- The Department should ensure that all fee payments, whether received in-person or through the mail, are immediately endorsed upon receipt and deposited daily to better safeguard these monies.
- The Department should also ensure that all monies received are deposited and credited to the appropriate program by reconciling receipts to deposits.

Process Implementation Time Allows Department to Make Sound Preparations

Careful planning is important for making sure the centralization process works as efficiently as possible. The Department estimates that the centralization process could take 12 to 16 months to complete. This gives the Department time to make sound preparations. Matters needing particular attention in those preparations include the following:

- **Developing a single database as economically as possible**—The Department will need to consider its data needs and determine what type of automated data system will best meet these needs. Specifically, Department management would like to implement a single database to handle all of the Department's licensing needs. Therefore, the Department should work with the Government Information Technology Agency (GITA) to assess the feasibility and cost of a single or networked licensing database. In fact, GITA review and approval of information technology projects is required for all proposed projects costing at least \$25,000 and according to the Director of GITA, can assist agencies in obtaining the necessary approval and funding from the Legislature for these projects. Department management estimates the cost to develop and implement a new licensing database could potentially total \$1 million.

Similarly, the Department of Liquor Licenses and Control reports that it implemented an automated information system with a single licensing database and imaging capabilities in 1994 at a cost of \$1.1 million. Not only does this system allow the Department of Liquor Licenses and Control to maintain its licensing information in one location and more easily retrieve this information, it allows the Department to scan and store all licensing documents into the system and thereby operate in a paperless work environment. This has facilitated the Department of Liquor Licenses and Control's efforts to process an estimated 10,200 new and renewed licenses annually. Likewise, the Department could benefit from a similar information system because the Department issued approximately 70,000 licenses, permits, and certificates in fiscal year 1999 and currently must store its license-related docu-

*Licensing files take up nearly 90
four-drawer filing cabinets.*

ments in nearly 90 four-drawer filing cabinets. To minimize the potential costs of a new automated licensing system, the Department should consider contacting the Department of Liquor Licenses and Control and the Registrar of Contractors, which also operates a single licensing database, to determine whether these agencies' databases can be adapted to meet the Department's needs.

- **Creating comprehensive policies and procedures**—The Department should develop a licensing policies and procedures manual. The manual should contain policies and procedures specific to each license, permit, or certificate type to ensure that staff can handle each one appropriately and consistently. Specifically, the manual should contain detailed instructions on how to process and issue each type of license, permit, and certificate and discuss proper cash-processing controls. The Department should also ensure that all employees assigned to the centralized licensing unit receive training on licensing policies and procedures before the unit begins operations.

- **Making the workload as consistent as possible**—The Department should review the current expiration dates of its licenses, permits, and certificates to ensure that the unit's workload would be as consistent as possible throughout the year. Currently, the majority of the Department's licenses expire in June, September, or December, while the remainder are scattered throughout the rest of the year. The Department should consider developing a renewal method that would provide for even workloads while not burdening its customers. The Department reports that while it may have to maintain some of its current license renewal dates to meet customer needs, it may be possible to develop alternative renewal methods for other licenses.

For example, citrus, fruit, and vegetable licenses are currently renewed during the off-peak growing season of August and September, so as not to overburden these customers during the peak growing season. However, other licenses, such as egg or dairy licenses, could be renewed at various dates throughout the year without interrupting these customers' business operations. For licenses without sensitive renewal dates, the Department could consider assigning expiration

dates based on the customer's last name or company name rather than by license type. This approach would allow the Department to provide an even workload throughout the year for its licensing staff, and customers requiring various licenses would be able to obtain all necessary licenses at the same time.

Recommendations

1. The Department should centralize its license, permit, and certificate functions into a single function.
2. The Department should work with GITA to explore the feasibility of developing and implementing a single database to store and track all licensing data. The Department should also explore the possibility of adapting a single licensing database from another state agency.
3. The Department should develop a licensing policies and procedures manual that contains specific instructions on how to process and issue each type of license, permit, and certificate the Department is responsible for. The manual should also detail proper cash receipt controls, including segregating fee collection, processing, and depositing; restrictively endorsing checks and money orders immediately upon receipt; making daily deposits; and reconciling receipts to deposits.
4. The Department should adopt appropriate cash-processing controls for the licensing fees it receives regardless of its efforts to centralize its licensing functions.
5. The Department should train its licensing staff on the licensing policies and procedures, when developed.
6. The Department should consider developing a renewal method that would provide for an even licensing workload throughout the year, while not burdening customers.

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Agency Response

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JANE DEE HULL
Governor



SHELDON R. JONES
Director

Arizona Department of Agriculture
Office of the Director

May 5, 2000

Ms. Debbie Davenport
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Enclosed is the Arizona Department of Agriculture's response to the ADA, Licensing Functions Audit. The ADA agrees in general with the findings and recommendations of the audit team.

The ADA is pleased to note that it has already begun to identify many of the issues documented in your report and have begun implementing corrective action. Our goal for the next twelve to sixteen months is to continue the efforts already underway with a strong emphasis on improving the delivery of quality customer service to our internal and external stakeholders.

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 issues identified in this report.

Sincerely,

Sheldon R. Jones
Director

SRJ:NW:jg

Enclosure

AUDITOR GENERAL'S RECOMMENDATIONS AGENCY RESPONSE

Overview:

The Arizona Department of Agriculture (ADA) agrees in general with the findings and recommendations of the audit team and would like to thank the Auditor General's staff for the professional manner in which the audit was performed.

Mark Twain once wrote, "Few things are harder to put up with than the annoyance of a good example." We believe the ADA, 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 promote 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 ADA 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 ADA recognizes more must be done to meet the challenges we face today and those we will face in the future.

As indicated in the Auditor General's report, the characteristics of the ADA's multiple licensing functions contribute to duplication of effort and resources on the part of both the Department, as well as the public it serves. The ADA appreciates the Auditor General's recognition of the many efforts and initiatives made by ADA staff to explore the efficiencies to be gained by streamlining its licensing functions. Our goal in the next twelve to sixteen months is to fully explore and implement, where prudent, the centralization of our multiple licensing functions. As the report indicates, while such an effort will result in a cost-effective, customer service oriented process, the report equally stressed the need for the purchase and development of technology to accommodate a singular database warehouse.

The findings of this audit report will be incorporated into our discussions with other state agencies and other agency stakeholders to further refine the system for meeting the dynamic and ever changing needs of Arizona's agriculture industry and the public at large.

Finding I: The Department's Licensing Functions Should Be Centralized

Recommendation 1: The Department should centralize its license, permit, and certificate functions into a single function.

Agency Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

The Arizona Department of Agriculture was created by legislation that united the functions and employees of multiple boards and commissions under the leadership of one cabinet level agency. In so doing, the Arizona Department of Agriculture was challenged to perform all the responsibilities of its multiple predecessors, and to do so more consistently, efficiently and timely.

The centralization of the administrative aspect of the Department's licensing functions is the next step to uniting the responsibilities of the agency's late predecessors. By streamlining, we will be doing more than housing old programs with old functions. By streamlining, we will be blending program functions across divisional lines by minimizing duplications of effort, resources, and time. By streamlining, the ADA will break down the remaining walls of its predecessors. In so doing, the ADA receives the Auditor General's recommendation as an endorsement of internal initiatives already underway.

The Arizona Department of Agriculture, as the report asserts, began work on "centralizing all of its licensing functions in an effort to improve customer service and allow the Department to better utilize its resources." As the agency strives to centralize the administrative aspect of its licensing functions, we fully anticipate the possibility that some of these licenses may be better maintained in separate, decentralized functions. This possibility has been discussed at great length with members of the audit team and will likely be the subject of numerous debates with various agricultural associations. At this point, however, the ADA will continue to work with an internal task force comprised of staff members from every licensing program to identify which aspects each of these permits, certificates and licenses have in common. By identifying the common denominator between the administrative aspects of these licensing functions, the ADA will be able to identify which licenses fit into a centralized environment and just as importantly, identify those licenses that may remain better maintained and issued in the field.

Therefore, while the ADA will continue to centralize the administrative aspect of its licensing functions, the ADA anticipates that a few licenses may be better managed by remaining decentralized.

Additionally, it is important to note that centralized licensing will not result in the narrowing of geographical access to ADA services by members of the public or Arizona's agriculture industry. To the contrary, controls over common data and processes can be centralized, while delivery of service can be managed to a higher level of customer satisfaction. There are multiple ways to achieve this. For example, agency stakeholders and customers will still receive necessary services in the field, however, the data collected from these licensing transactions will be centralized into one function for consistent and accessible storage. The ADA appreciates the Auditor General's support of this philosophy.

Recommendation 2: The Department should work with GITA to explore the feasibility of developing and implementing a single database to store and track all licensing data. The Department should also explore the possibility of adapting a single licensing database from another state agency.

Agency Response: *The finding of the Auditor General is agreed to and the audit recommendations will be implemented.*

The Arizona Department of Agriculture has already implemented this recommendation. While the Department is presently working with GITA and other state agencies to determine the extent to which the singular database must perform, it is quite likely that additional information resources will be necessary.

As the audit report points out, such a database is estimated to cost approximately \$1 million. With such resources, the ADA would be able to centralize the administrative portion of its more than seventy licensing functions, and enable reliable and accessible data between programs and to the public. The ADA appreciates the support the audit team so enthusiastically showed for this necessary resource and hopes that the Legislature will acknowledge and fulfill this need during the next budget biennium.

Recommendation 3: The Department should develop a licensing policies and procedures manual that contains specific instructions on how to process and issue each type of license, permit, and certificate

the Department is responsible for. The manual should also detail proper cash receipt controls, including segregating fee collection, processing, and depositing; restrictively endorsing checks and money orders immediately upon receipt; making daily deposits; and reconciling receipts to deposits.

Agency Response: *The finding of the Auditor General is agreed to and the recommendation will be implemented.*

We believe the greatest challenge of centralizing the Department's numerous licensing functions will be the need for employee education. To prepare for this eventuality, the ADA has begun work on a policy and procedures manual that will assist the licensing personnel in the proper methods of record retention, GAAP financial requirements and customer service.

As a small agency with duplicative licensing functions, we do not have sufficient people in all areas, at present, to comply with GAAP financial controls for handling money which, of course, involves separate people for receipt, posting, depositing, and reconciliation of funds. Centralized licensing will give the ADA the necessary coverage and training to comply with GAAP, better maintain records, and provide improved customer service. By centralizing these and other administrative aspects of agency licensing, the ADA will be able to lessen overhead and other physical resources by re-deploying employees into other activities where their presence will be of greater assistance to Arizona's agriculture industry.

Recommendation 4: **The Department should adopt appropriate cash-processing controls for the licensing fees it receives regardless of its efforts to centralize its licensing functions.**

Agency Response: *The finding of the Auditor General is agreed to and the recommendation will be implemented.*

As the ADA is in the preliminary stages of centralizing the administrative portion of its licensing functions, the Department will implement the recommendation in tandem with its efforts to centralize. Such a recommendation falls completely on the side of common sense and would be implemented regardless of the Auditor General's recommendation.

Recommendation 5: The Department should train its licensing staff on the licensing policies and procedures, when developed.

Agency Response: *The finding of the Auditor General is agreed to and the recommendation will be implemented.*

As a step in the centralization process, the ADA will make every effort to cross-train its licensing personnel on the policies and procedures manuals once completed. Such a step is the only responsible and prudent method to go about centralizing so many activities.

The Department has already begun planning for this critical stage of the centralization process by enlisting the expertise of its Training Manager.

Recommendation 6: The Department should consider developing a renewal method that would provide for an even licensing workload throughout the year, while not burdening customers.

Agency Response: *The finding of the Auditor General is agreed to and the recommendation will be implemented.*

The ADA will certainly consider ways to provide for an even licensing workload throughout the year. As the audit team is aware, however, many of the ADA's present licensing renewal and expiration timeframes are established by statute and based on the seasonality of the agricultural producer's (our most frequent customer) needs.

Other Performance Audit Reports Issued Within the Last 12 Months

99-5	Department of Gaming	99-17	Department of Health Services’ Tobacco Education and Prevention Program
99-6	Department of Health Services— Emergency Medical Services	99-18	Department of Health Services— Bureau of Epidemiology and Disease Control Services
99-7	Arizona Drug and Gang Policy Council	99-19	Department of Health Services— Sunset Factors
99-8	Department of Water Resources	99-20	Arizona State Board of Accountancy
99-9	Department of Health Services— Arizona State Hospital	99-21	Department of Environmental Quality—Aquifer Protection Permit Program, Water Quality Assurance Revolving Fund Program, and Underground Storage Tank Program
99-10	Residential Utility Consumer Office/Residential Utility Consumer Board	99-22	Arizona Department of Transportation A+B Bidding
99-11	Department of Economic Security— Child Support Enforcement	00-1	Healthy Families Program
99-12	Department of Health Services— Division of Behavioral Health Services	00-2	Behavioral Health Services— Interagency Coordination of Services
99-13	Board of Psychologist Examiners	00-3	Arizona’s Family Literacy Program
99-14	Arizona Council for the Hearing Impaired	00-4	Family Builders Pilot Program
99-15	Arizona Board of Dental Examiners		
99-16	Department of Building and Fire Safety		

Future Performance Audit Reports

Board of Medical Student Loans

Department of Public Safety—Aviation Division

Department of Agriculture’s
Animal Disease, Ownership and Welfare Protection Program