

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**ARIZONA
DEPARTMENT
OF
AGRICULTURE**

**ANIMAL DISEASE,
OWNERSHIP AND
WELFARE PROTECTION
PROGRAM**

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

**June 2000
Report No. 00-8**

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.

The Joint Legislative Audit Committee

Representative Roberta L. Voss, Chairman
Senator Tom Smith, Vice-Chairman

Representative Robert Burns
Representative Ken Cheuvront
Representative Andy Nichols
Representative Barry Wong
Representative Jeff Groscost
(ex-officio)

Senator Keith Bee
Senator Herb Guenther
Senator Darden Hamilton
Senator Pete Rios
Senator Brenda Burns
(ex-officio)

Audit Staff

Dale Chapman—*Manager*
and Contact Person (602) 553-0333
Jay Dunkleberger—Audit Senior
Charles McTheny—Staff
Mark McCain—Staff

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018
(602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

June 8, 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—Animal Disease, Ownership and Welfare Protection 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 to provide a quick summary for your convenience.

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

As outlined in its response, the agency 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 June 9, 2000.

Sincerely,

A handwritten signature in black ink, reading "Debbie Davenport", is written over a horizontal line.

Debbie Davenport
Auditor General

Enclosure

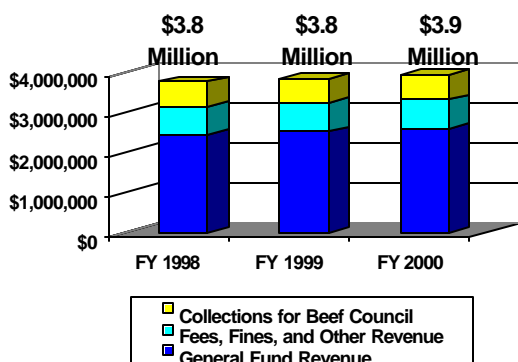


Program Fact Sheet

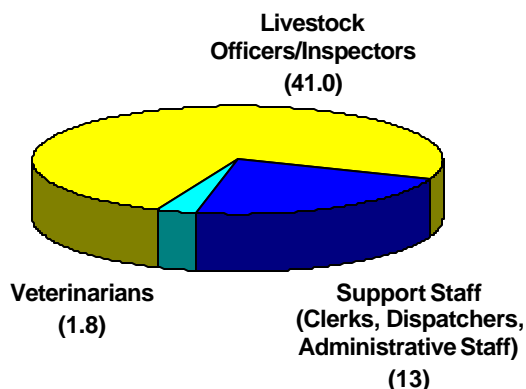
Department of Agriculture— Animal Disease, Ownership and Welfare Protection Program

Services: The Animal Disease, Ownership and Welfare Protection Program, which consists of the Livestock Inspection and Animal Disease Control Subprograms, offers the following services: **1) Livestock inspection**—Verifies ownership whenever livestock are sold or transported in Arizona; **2) Horse registration**—Issues horse ownership-hauling certificates that individually identify horses, mules, and burros in the State; **3) Livestock brand registration**—Records brands and earmarks used by livestock owners in the State; **4) Livestock law enforcement**—Enforces state laws regarding livestock theft, abuse, or illegal killing; and **5) Animal disease detection**—Regulates the importation of animals into the State; and tracks, investigates, and eradicates livestock diseases in the State.

Revenue: \$3.9 million (Fiscal Year 2000)



Personnel: 55.8 FTEs (As of April 2000)

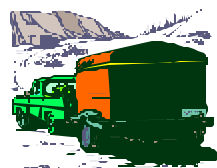


Facilities: The program operates no facilities outside of the Department's offices at the Capitol complex in Phoenix. The program's livestock inspectors, stationed in various parts of the State, generally operate from their homes.

Equipment: The Department has purchased several items used extensively by the program, including:



- 45 state vehicles, consisting of ½-ton trucks, ¾-ton trucks, or 4X4 vehicles. These vehicles were leased from the Department of Administration at a cost of over \$225,000 in 1999.



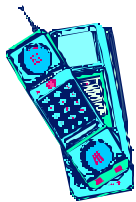
- 16 horse trailers for transporting seized, lost, or unclaimed livestock.

(continued)

Equipment: (Concl'd)



- 46 semi-automatic pistols for use by the Department's certified peace officers.



- A \$58,000 radio/dispatch system housed in the Phoenix office.

Program Goals (Fiscal Years 2000-2002)

Subprogram 1: Animal Disease Control

1. To provide an overview of inspection and regulatory measures.
2. To maintain an effective system of livestock and commercial fish disease surveillance and response.

Subprogram 2: Livestock Inspection

1. To provide an overview of inspection and regulatory measures.
2. To maintain an effective system of livestock inspection.

Adequacy of Goals and Performance Measures:

Several improvements could be made to the Department's four goals for its two subprograms and their performance measures.¹

- The program's goals are overly broad, and incorporate too many performance measurements to effectively track performance. For example, under the goal, "To maintain an effective system of livestock inspection," the Department has developed and attempts to track 30 performance measures.
- For some of its performance measures, the Department has not instituted a mechanism to assess its performance. For example, each of the four program goals has measurements requiring the Department to assess customer satisfaction. However, the Department has not developed survey instruments to collect and analyze customer satisfaction data for all of these goals.
- While the program generally employs appropriate outcome and efficiency measurements, some are inappropriate and others could be added to enhance specific aspects of the program. Specifically, the Department has developed some efficiency performance measurements for the Animal Disease Control Subprogram that do not apply to program activities. Further, the Department lacks measures for assessing the efficiency and cost of its livestock inspection operations and its investigation activities.

¹ The Department incorporated two of these goals and associated performance measures in order to comply with guidelines specified in the Budget and Planning Instructions for fiscal years 2000 and 2001 issued by the Governor's Office of Strategic Planning and Budgeting.

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture's Animal Disease, Ownership and Welfare Protection 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 through 41-2956, and is the second in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

The Animal Disease, Ownership and Welfare Protection Program consists of the Livestock Inspection and the Animal Disease Control Subprograms. The Livestock Inspection Subprogram's goal is to protect owners from livestock theft and livestock from abuse. One of the subprogram's main functions is to inspect Arizona cattle and horses to verify ownership. Within the Animal Disease Control Subprogram, the Department regulates imported animals, and monitors, investigates, and limits the spread of livestock diseases within the State.

Several Changes Needed to Improve Cattle Inspection Process (See pages 9 through 19)

The Legislature and the Department can make a number of statutory and procedural changes to improve the cattle inspection process. These inspections protect cattle owners against theft by verifying ownership whenever cattle are sold or transported. However, Arizona law currently requires the Department to conduct thousands of inspections that are potentially duplicative. The law requires the Department to inspect cattle before they are transported, but cattle going to auctions or feedlots are inspected again by Department inspectors when they arrive. Nearly 180,000 head of cattle received both a pre-transit inspection and a second inspection upon arriving at an auction or feedlot in fiscal year 1999. Cattle industry representatives indicate that the duplicative inspections are unnecessary and unjustified by current cattle theft

rates. The Legislature should consider allowing cattle owners to transport their animals to auctions or feedlots without first receiving a pre-transit inspection.

Additionally, current cattle inspection fees the Department can charge do not permit it to recover its direct costs for cattle inspections. A typical inspection costs the Department over \$14, with inspector travel time and vehicle operating costs accounting for 56 percent of this cost. However, for the majority of the inspections it performs, the Department collects \$3.75 or less in inspection fees. Since travel costs represent over half of the Department's expense for inspections, the Legislature should consider granting the Department the authority to impose a travel fee. Several other Western states have adopted a separate travel fee or surcharge to recover travel expenses incurred. Additionally, this fee would be charged to customers who request inspection services on their property. While Arizona's cattle inspection fees have not changed in nearly 20 years and the cattle industry has resisted previous attempts to increase them, industry representatives suggest that cattle owners may be receptive to a travel fee if the industry and the Department work together to improve the inspection process. These improvements include encouraging owners to take their cattle to a location where inspectors are regularly stationed, meeting inspectors at a convenient mid-point, and reviewing the possibility of increasing the number of part-time or seasonal inspectors stationed in rural areas. Implementing these improvements could also reduce the travel currently required for inspections, and potentially reduce inspection costs for the Department and inspection fees for cattle owners.

Current Fee Does Not Support Inspection Costs for Horse Registration (See pages 21 through 25)

While horse registration is mandated by law, the current fees charged to register horses are insufficient to cover the Department's costs for providing registration and inspection services. During the last two fiscal years, the Department inspected approximately 15,000 to 19,000 horses annually, issuing registration certificates that act as ownership documents and allow horses to

be freely transported throughout the State. However, the inspection fee for horse registration, set by statute at \$5 per horse, is far below the inspection's estimated \$14.50 cost. The fee is also lower than fees charged in other Western states. The Legislature should consider:

- (1) Increasing the current inspection fee to recover more of the Department's costs for conducting horse inspections;
- (2) Authorizing a travel fee by establishing a maximum fee that limits how much the Department can charge for traveling to a horse owner's property to conduct inspections; and
- (3) Giving the Department authority to set the actual travel fee by administrative rule, so long as the fee does not exceed the maximum established by statute.

As with cattle inspections, the Department can reduce costs, and therefore keep the rate as low as possible, by encouraging horse owners to transport their animals to convenient inspection locations.

Other Pertinent Information (See pages 27 through 31)

During the audit, other pertinent information was collected regarding the Department's efforts to prevent, detect, and limit the spread of livestock diseases. The state and the federal governments track six diseases that potentially threaten Arizona livestock, and in some cases could be transmitted to humans. The State Veterinarian, within the Animal Disease Control Subprogram, is charged with detecting and controlling these and other infectious livestock diseases that appear in Arizona. The State Veterinarian requires owners to prove that the animals they import into the State are disease-free; collects and disseminates reports of infected animals; and investigates and eradicates disease outbreaks. Most of the diseases being monitored have not appeared in Arizona in the past two years. The Department is responding to industry concerns over the potential impact of disease outbreaks by instituting a new training program for livestock inspection staff that would increase the Department's ability to identify infected livestock.

(This Page Intentionally Left Blank)

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Introduction and Background | 1 |
| Finding I: Several Changes Needed to Improve Cattle Inspection Process | 9 |
| Background..... | 9 |
| Department May Perform Thousands of Duplicative Inspections | 11 |
| Opportunity Exists to Recover Costs More Fully and Improve Inspection Efficiency | 13 |
| Recommendations | 19 |
| Finding II: Current Fee Does Not Support Inspection Costs for Horse Registration..... | 21 |
| Department Responsible for Registering Horses..... | 21 |
| Inspection Process Needs Improvement..... | 22 |
| Recommendations | 25 |
| Other Pertinent Information | 27 |
| Animal Disease Control Program..... | 27 |
| Agency Response | |

TABLE OF CONTENTS (concl'd)

| | Tables and Figure | <u>Page</u> |
|----------|--|--------------------|
| Table 1 | Arizona Department of Agriculture Livestock Inspection Subprogram Statement of Revenues, Expenditures, and Changes in Fund Balance Years Ended or Ending June 30, 1998, 1999, and 2000 (Unaudited)..... | 3 |
| Table 2 | Arizona Department of Agriculture Animal Disease Control Subprogram Statement of Revenues, Expenditures, and Changes in Fund Balance Years Ended or Ending June 30, 1998, 1999, and 2000 (Unaudited)..... | 5 |
| Table 3 | Arizona Department of Agriculture Animal Disease, Ownership and Welfare Protection Program Number of Cattle per Inspection February 1999 through October 1999 | 14 |
| Table 4 | Arizona Department of Agriculture Animal Disease, Ownership and Welfare Protection Program Comparison of Cattle Inspection Fees in Selected Western States As of January 2000..... | 16 |
| Figure 1 | Arizona Department of Agriculture Animal Disease, Ownership and Welfare Protection Program An Example of the Livestock Inspection Process As of January 31, 2000 | 10 |
| | Photo | |
| Photo 1 | A livestock inspection..... | 2 |

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture's Animal Disease, Ownership and Welfare Protection 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 through 41-2956, and is the second in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

In 1990, the Department of Agriculture became responsible for livestock regulation and health.

The State's interest in livestock inspections and animal disease control precedes statehood. In 1887, the Livestock Sanitary Commission (later the State Livestock Board) was established, which published rules and regulations to protect domestic animals from contagious diseases, and for the efficient inspection of cattle shipped or slaughtered in the Arizona Territory. The State Livestock Board was responsible for livestock regulation in Arizona through 1990. On January 1, 1991, the Legislature combined several separate livestock and poultry inspection, fruit and vegetable standardization, and agricultural pesticide and fertilizer regulatory boards and commissions to create the Arizona Department of Agriculture. Currently, the Department's Animal Disease, Ownership and Welfare Protection Program is charged with protecting Arizona livestock from the threat of theft, abuse, or disease. The Department has further organized this program into the Livestock Inspection and Animal Disease Control Subprograms.

Livestock Inspection in Arizona

The Livestock Inspection Subprogram (52 FTEs)—This subprogram seeks to protect owners from livestock theft, and livestock from abuse, by regulating all facets of livestock ownership and movement and maintaining documentation of livestock activity.

Introduction and Background

These activities include registering livestock brands, issuing horse identification cards, investigating stray livestock or cases of alleged livestock abuse or theft, and seizing livestock when ownership is disputed. The subprogram also assists state and local law enforcement agencies in livestock issues, such as identifying and disposing of dead cattle. One of the subprogram's main functions is to inspect Arizona cattle and horses to verify ownership. To protect against livestock theft, the Department individually registers each horse, mule, and burro in the State, and inspects cattle before they are moved or sold in Arizona.

During fiscal year 1999, the subprogram reports that staff inspected approximately 664,000 livestock, including 15,000 horses, and received reports of 22 cases of cattle theft, and 16 cases of horse theft. The Department employs 41 full-time livestock inspection and investigation staff, including 31 certified peace officers.



Photo 1: A livestock inspection.

Livestock Inspection Budget—During fiscal year 2000 and as illustrated in Table 1 (see page 3), the Livestock Inspection subprogram will receive an estimated \$2.3 million in General Fund monies, while generating an estimated \$259,000 in livestock

Table 1

**Arizona Department of Agriculture
Livestock Inspection Subprogram
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended or Ending June 30, 1998, 1999, and 2000
(Unaudited)**

| | 1998 (Actual) | 1999 (Actual) | 2000 (Estimated)) |
|--|--------------------|--------------------|----------------------|
| Revenues: | | | |
| State General Fund appropriations | \$2,178,600 | \$2,280,100 | \$2,307,200 |
| Charges for services— | | | |
| Beef Council fees | 655,537 | 621,927 | 627,000 |
| Inspection fees | 252,095 | 272,950 | 259,100 |
| Title certificate fees | 118,916 | 121,489 | 121,500 |
| Licenses and permits | 162,601 | 203,483 | 209,400 |
| Livestock custody proceeds ¹ | 103,066 | 71,060 | 74,800 |
| Intergovernmental | 4,895 | | |
| Interest on investments | | 3,750 | |
| Fines and forfeits | 386 | 17,224 | 17,200 |
| Other | 30,407 | 99 | 31,400 |
| Total revenues | <u>3,506,503</u> | <u>3,592,082</u> | <u>3,647,600</u> |
| Expenditures: | | | |
| Personal services | 1,404,964 | 1,462,254 | 1,504,500 |
| Employee related | 351,788 | 365,288 | 346,300 |
| Professional and outside services | 39,045 | 34,122 | 41,200 |
| Travel, in-state | 233,055 | 236,076 | 250,900 |
| Travel, out-of-state | 6,260 | 5,181 | 8,200 |
| Other operating | 209,764 | 250,323 | 247,000 |
| Equipment | 57,245 | 57,933 | 1,000 |
| Total expenditures | <u>2,302,121</u> | <u>2,411,177</u> | <u>2,399,100</u> |
| Excess of revenues over expenditures | <u>1,204,382</u> | <u>1,180,905</u> | <u>1,248,500</u> |
| Other financing sources (uses): | | | |
| Net operating transfers in | 24,947 | 12,500 | |
| Remittances to the State General Fund | (537,257) | (605,859) | (597,900) |
| Remittances to the Beef Council | (612,874) | (599,676) | (627,000) |
| Total other financing uses | <u>(1,125,184)</u> | <u>(1,193,035)</u> | <u>(1,224,900)</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | <u>\$ 79,198</u> | <u>\$ (12,130)</u> | <u>\$ 23,600</u> |

¹ Includes payments from owners and proceeds from public auctions to recover costs of hauling, feeding, and caring for seized animals.

Source: The Arizona Financial Accounting System (AFIS) *Accounting Event Transaction File* for the years ended June 30, 1998 and 1999. The Department estimated the financial information for the year ending June 30, 2000.

inspection fees; \$121,500 in livestock brand registration fees; \$209,000 in licenses and permits, primarily consisting of horse inspection, registration, and transfer fees; and over \$17,000 in fines. These revenues are remitted to the General Fund. The program's inspectors will also collect an estimated \$627,000 in inspection surcharges earmarked for the Arizona Beef Council and the National Beef Board, private organizations that petition state and federal governments on behalf of the industry and promote the use of beef among consumers. Under a statutorily mandated agreement, state inspectors collect a \$1 surcharge on each head of cattle sold in the State, remitting the money to the Council while retaining \$.05 of this surcharge to pay for administrative costs.

Animal Disease Control in Arizona

*The State Veterinarian is
responsible for animal disease
control.*

The Animal Disease Control Subprogram (3.8 FTEs)—This subprogram is charged with regulating the importation of livestock, poultry, ratites (ostriches and emus), fish, dogs, cats, and non-restricted wildlife species into Arizona, and monitors the health of all livestock in the State. The subprogram is directed by the State Veterinarian, who supervises two other veterinarians. The State Veterinarian and his staff investigate disease outbreaks and, when appropriate, issue quarantines to prevent diseases from spreading. The subprogram also protects public health by using its ability to quarantine and destroy infected animals to eradicate and prevent the reintroduction of animal diseases that are contagious to humans.

Animal Disease Control Budget—This subprogram relies almost entirely upon General Fund revenues to fund its efforts to identify, diagnose, and prevent the spread of livestock diseases. Specifically, as seen on Table 2 (see page 5), the subprogram will receive an estimated \$269,500 in General Fund revenue during fiscal year 2000, and about \$22,000 from licenses, permits, inter-governmental aid, and other revenue.

Table 2

**Arizona Department of Agriculture
Animal Disease Control Subprogram
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended or Ending June 30, 1998, 1999, and 2000
(Unaudited)**

| | 1998 (Actual) | 1999 (Actual) | 2000 (Estimated) |
|---|------------------|------------------|---------------------|
| Revenues: | | | |
| State General Fund appropriations | \$246,800 | \$236,800 | \$269,500 |
| Licenses and permits | 13,267 | 10,420 | 10,300 |
| Intergovernmental | 4,000 | 4,000 | 10,100 |
| Other | 620 | 1,907 | 1,900 |
| Total revenues | <u>264,687</u> | <u>253,127</u> | <u>291,800</u> |
| Expenditures: | | | |
| Personal services | 114,814 | 106,755 | 130,400 |
| Employee related | 27,561 | 26,676 | 30,000 |
| Professional and outside services | 65,307 | 65,183 | 68,300 |
| Travel, in-state | 8,239 | 8,674 | 15,400 |
| Travel, out-of-state | 3,356 | 712 | 7,400 |
| Other operating | 33,021 | 29,380 | 27,000 |
| Equipment | 5,230 | 13,541 | 11,200 |
| Total expenditures | <u>257,528</u> | <u>250,921</u> | <u>289,700</u> |
| Excess of revenues over expenditures | 7,159 | 2,206 | 2,100 |
| Remittances to the State General Fund | <u>(3,530)</u> | <u>(2,780)</u> | <u>(2,800)</u> |
| Excess of revenues over (under) expenditures and remittances to the State General Fund | <u>\$ 3,629</u> | <u>\$ (574)</u> | <u>\$ (700)</u> |

Source: The Arizona Financial Accounting System (AFIS) *Accounting Event Transaction File* for the years ended June 30, 1998 and 1999. The Department estimated the financial information for the year ending June 30, 2000.

Privatization Review

The Department recently initiated a study to evaluate the feasibility of privatizing the Livestock Inspection Subprogram. In November 1999, the Governor's Office for Excellence in Government (OEG) requested that each state agency identify at least one program within its agency to study for potential privatization. In response, the Department selected the Livestock Inspection Subprogram for review. In conjunction with the OEG, the Department will determine the costs of the State providing the program's services and compare that to private companies' cost. This study should be completed by December 2000, and if this

analysis suggests that the State should privatize the subprogram, the Department will solicit bids from private companies.

Audit Scope and Methodology

This audit focuses on the Department's efforts to fulfill its responsibilities to regulate and monitor the movement, sale, and identification of cattle and horses throughout the State, and to present information on the Department's current efforts to protect the State from infectious animal diseases. Several methods were used to study the issues addressed in this audit, including:

- Selecting and analyzing a statistically valid random sample of 285 daily livestock inspector and officer activity reports, consisting of 382 cattle and 227 horse inspections that were conducted from February 1999 through October 1999.¹ These inspections were analyzed to determine their direct costs, including vehicle costs, inspection time, and travel time.²
- Observing inspectors as they carried out their inspection duties and touring major inspection locations, including an auction house, a dairy, and two feedlots to gain firsthand knowledge of inspector activities and industry operations;
- Reviewing and verifying the Department's livestock inspection statistics for fiscal years 1997, 1998, and 1999;
- Reviewing the Department's fiscal year 1999 investigation reports to determine the occurrence of livestock theft;

¹ For certain analyses, some inspections were excluded due to insufficient inspection data.

² Travel time was calculated assuming staff average 35 miles per hour driving to the location. Further, this cost represents a conservative estimate, as it was calculated using mileage for only a one-way trip, and does not include the overhead costs for administering the Department.

- Contacting officials in ten Western states that conduct livestock inspections similar to Arizona's to obtain information about their inspection processes and procedures for comparison to Arizona's practices;¹
- Interviewing experts and others involved in the livestock industry and its regulation to obtain their perspective on the benefits and drawbacks of the livestock inspection program and the Department's performance. Interviewees included state legislators; United States Department of Agriculture and Arizona Department of Agriculture staff; cattle and horse industry representatives; ranchers; auction, dairy, and feedlot managers; and horse owners.

The report presents findings and recommendations in two areas:

- The Legislature and the Department should make changes to the cattle inspection process to reduce unnecessary inspections, increase the flexibility and cost-efficiency of inspections, and allow the Department to recover more of its costs through the implementation of a travel fee; and
- The Legislature should consider increasing the current fee for horse inspections and adopting a separate travel fee to allow the Department to more fully recover its costs for conducting these inspections and the Department should take various steps to reduce these costs.

In addition, the report contains Other Pertinent Information regarding the Department's efforts to prevent, detect, and eradicate livestock diseases.

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.

¹ The ten states contacted were California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

(This Page Intentionally Left Blank)

FINDING I

SEVERAL CHANGES NEEDED TO IMPROVE CATTLE INSPECTION PROCESS

The Legislature and the Department can make several statutory and procedural changes to improve the inspection process for verifying cattle ownership in Arizona. Some inspections, although required by statute, essentially duplicate others. A statutory change would be needed to eliminate the duplication. Additionally, the direct cost, or the cost of traveling to a site and conducting the inspections, is considerably higher than current fees. Therefore, the Legislature should consider supplementing the current statutory livestock inspection fee with a travel fee that would allow the Department to recover its inspection travel costs. Further, to keep this fee to a minimum, the Department should take several steps to make the inspection process more efficient by reducing inspectors' travel costs.

Background

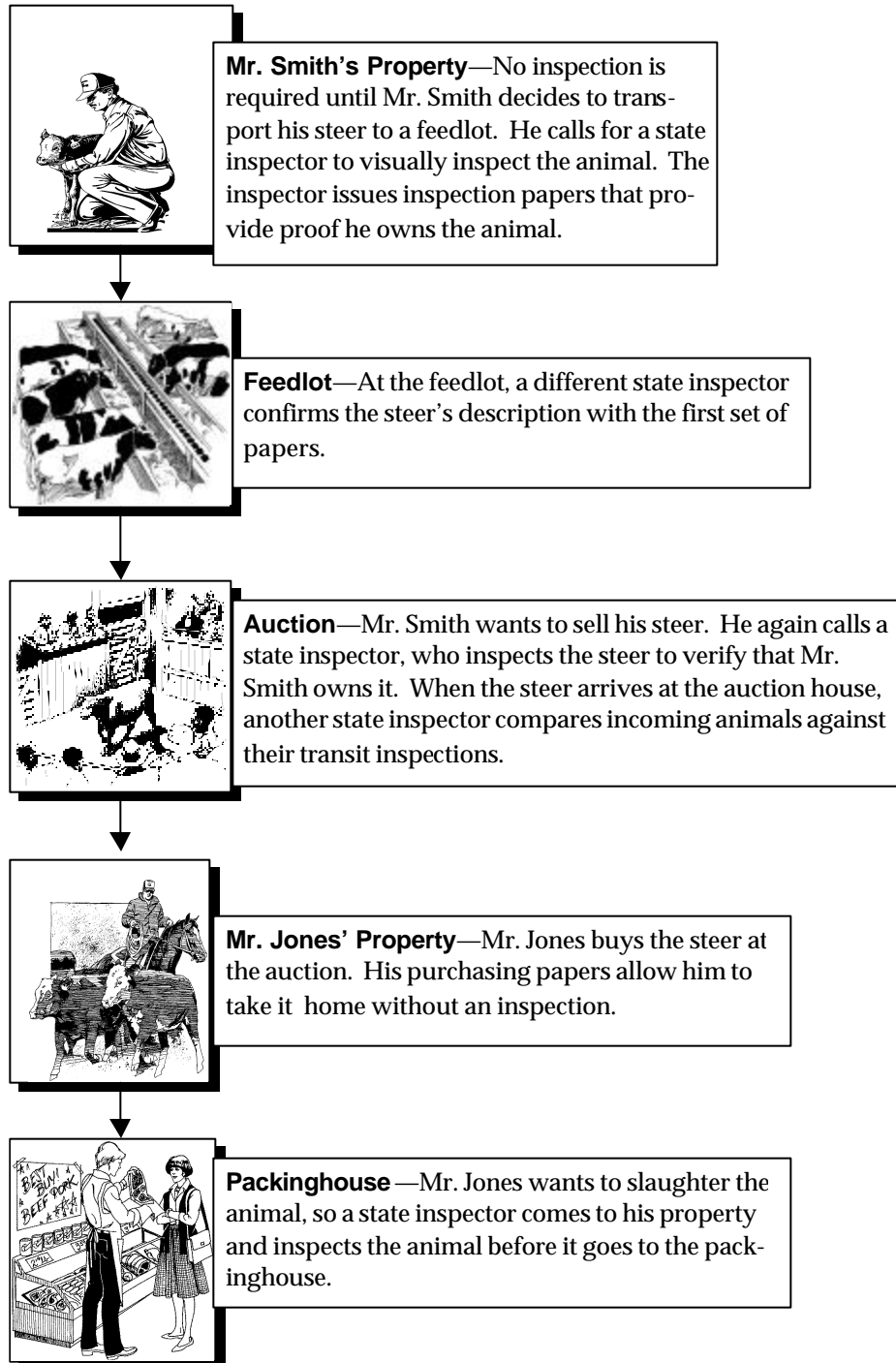
One of the subprogram's functions is verifying ownership of sold or transported cattle.

The Livestock Inspection Subprogram seeks to protect against cattle theft by inspecting livestock, investigating animal theft and cruelty cases, and licensing brands. One of the inspection subprogram's most important functions is to act as an unbiased third party to verify cattle ownership whenever cattle are sold, transported out of state, or moved within the state. The Department verifies ownership by reviewing brands, marks, and any pertinent documentation, such as ownership papers and health certificates. As Figure 1 (see page 10) illustrates, inspections can occur at several different points in the process of raising cattle and bringing them to market. For instance, inspections are required before cattle are transported on Arizona roads and when there is a change in ownership.

To reduce the number of inspections it performs, the Department has created a self-inspection program for certain cattle owners. Under this program, the Department has granted self-inspection rights to 887 dairies, feedlots, and ranchers who may transport

Figure 1

**Arizona Department of Agriculture
Animal Disease, Ownership and Welfare Protection Program
An Example of the Livestock Inspection Process
As of January 31, 2000**



Source: Auditor General staff summary of information obtained from Department of Agriculture personnel and A.R.S. §3-1336.

their cattle to an auction, feedlot, pasture, or slaughterhouse by recording the number and description of the cattle they transport, similar to what the Department would do during a state inspection. However, most cattle owners do not have self-inspection privileges and require the Department to conduct cattle inspections.

Department May Perform Thousands of Duplicative Inspections

Arizona law currently requires the Department to conduct thousands of inspections that are potentially duplicative. The law requires the Department to inspect cattle before they are transported, but cattle going to auctions or feedlots are inspected again when they arrive. To reduce duplicative inspections, the Legislature should consider allowing cattle owners to transport their animals to auctions or feedlots where inspections would occur without a pre-transit inspection.

Unnecessary inspections burden the Department and the industry—Inspections conducted before cattle are transported to auctions and feedlots are unnecessary and burden the Department and the industry. Currently, the Department inspects cattle when they arrive at one of Arizona’s 7 livestock auction houses or 24 feedlots. In fiscal year 1999, the Department reported that its staff inspected nearly 180,000 head of cattle before these animals were shipped to one of these locations. These animals were subsequently inspected again when they arrived. Department officials indicate that these initial inspections protect against livestock theft by ensuring that inspectors are aware of legitimate cattle movement and provide proof of ownership during transit. However, representatives of the Arizona Cattlemen’s Association indicate that these pre-transit inspections are unnecessary and current theft rates do not justify pre-transit inspections. Specifically, a review of Department records for fiscal year 1999 revealed only 21 reported cases involving stolen cattle.

In fiscal year 1999, 180,000 cattle were unnecessarily inspected.

These duplicative inspections place unnecessary burdens on the Department and the industry. Traveling to ranches to inspect cattle adds considerably to the Department's inspection costs. Additionally, such inspections can inconvenience cattle owners. According to industry representatives, some cattle owners must wait to transport cattle until an inspector arrives to perform the inspection, costing them time and money.

Statutory change needed to permit cattle to be transported without an inspection—Under A.R.S. §3-1336(A), the Department must verify ownership before anyone can move or sell livestock:

[Cattle]...shall not be slaughtered, sold, purchased, driven, transported, shipped or conveyed unless the animals have been inspected by a livestock officer or inspector for health, brands and marks immediately before they are slaughtered, sold, purchased, driven, transported, shipped or conveyed and the inspection fee paid.

To decrease the number of duplicative and costly inspections, the Legislature should consider amending A.R.S. §3-1336(A) to allow owners to transport cattle to an auction or feedlot without first receiving a Department inspection. Industry representatives have expressed support for an inspection program that inspects cattle arriving at feedlots and auction houses and eliminates pre-transit inspections conducted by the Department. Moreover, they indicated that this program could be implemented without decreasing the Department's oversight of cattle movements.¹ Specifically, cattle owners could use other documentation such as previous inspection or ownership papers to replace the inspection forms prepared by Department inspectors prior to transporting cattle. In fact, the Department indicated it already informally allows owners to use this documentation in lieu of a pre-transit inspection for some cattle movements.

¹ While Department officials agree with the need to reduce pre-transit inspections, they indicate that in some circumstances, pre-transit inspections would still be necessary. For example, yearling calves, who are unlikely to have any ownership documentation, may require an inspection prior to being moved.

A review of ten Western states found that three other states do not require cattle to be inspected before they are transported within state boundaries.¹ Unless cattle are being shipped from a designated area, California does not require cattle to be inspected before they are transported within state boundaries. Instead, cattle are inspected after they arrive at slaughterhouses, feedlots, and sale yards. Oregon requires an inspection before cattle are moved out of state and before they are sold or slaughtered. However, this inspection is not necessary if the cattle are inspected when they arrive at an auction yard or sale yard.

Opportunity Exists to Recover Costs More Fully and Improve Inspection Efficiency

Many cattle inspections incur significant travel costs, and current fees fail to recover these costs. Greater recovery of costs would require statutory changes to the current inspection fees, such as allowing the Department to charge for the costs of travel, a practice followed in several other Western states. Additionally, the Department could keep these charges to a minimum by reducing its travel costs through several program improvements.

A typical inspection costs the Department \$14 but recovers only \$3.75 or less in fees.

Most inspections recover a fraction of their cost—Based on a statistically representative review of 281 cattle inspections, a typical inspection has an estimated cost of over \$14 in inspection costs, and travel expenses, which consist of vehicle operations costs and the cost of inspector salaries while traveling. However, on average, only 44 percent of this cost is for the actual inspection, while the Department incurs the remaining cost for the travel associated with each inspection.

¹ The states included in the survey were California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

The Department typically recovers only a portion of this cost. Under A.R.S. §3-1337(A), the fee for an inspection is set at \$3, plus \$.25 per head of cattle inspected. Further, as illustrated in Table 3, 55 percent of all inspections are for 3 or fewer head of cattle. These inspections would yield between \$3.25 and \$3.75 in fees. However, for inspections involving 1 to 3 head of cattle, the

Table 3

**Arizona Department of Agriculture
Animal Disease, Ownership
and Welfare Protection Program
Number of Cattle per Inspection
February through October 1999**

| Number Inspected | Percentage of Inspections¹ |
|-----------------------------|--|
| 1 | 33 |
| 2-3 | 22 |
| 4-8 | 18 |
| 9-20 | 10 |
| 21-80 | 7 |
| 81 and up | 10 |

¹ Excludes three cases in which the cattle were not inspected because the cattle owners lacked appropriate documentation.

Source: Auditor General staff analysis of 382 cattle inspection reports randomly selected from the Department's records.

fees generated fall far short of the over \$14 in costs associated with a typical inspection. Moreover, in instances where inspectors have to travel unusually large distances, the costs incurred for inspector time and vehicles can far surpass the fees generated. For example, in February 1999, an inspector based in Northern Arizona traveled 154 miles to inspect 8 head of cattle. The inspector spent six-and-a-half hours in travel and inspection time to inspect the cattle at an estimated cost to the Department of \$125 in inspector time and vehicle cost. Yet, this inspection generated only \$5 in inspection fees.

Geographic and seasonal schedules affect travel costs—The Department incurs significant travel costs because the cattle

industry is geographically dispersed and the inspection work varies seasonally. Though some clusters of owners with a small amount of cattle exist in urban areas, many cattle owners are located in rural areas across the State. As a result, inspectors must often travel to these areas to conduct inspections. For example, the Department reports that its inspectors traveled 872,000 miles during fiscal year 1999 to carry out their duties (the Department does not report the number of miles specifically for inspections). Additionally, analysis of inspector activity shows that for half of the inspections the Department conducted, it traveled 12 miles or less one-way. However, for the other half of inspections conducted, the Department traveled from 12.5 to 102 miles one-way. The Department also travels more in response to the seasonal nature of the cattle industry. According to the Department and industry officials, cattle inspections occur more often during the fall and spring seasons. Cattle owners have a greater need for timely inspections during these more active months, meaning inspectors must travel more during months with a high volume of cattle movements.

The Department has attempted to reduce its staff's inspection load and travel time by implementing the self-inspection program and by locating its inspectors throughout the State. However, the self-inspection program, which relies on owners to report cattle movement to the Department, is limited to branded cattle and/or cattle at licensed feedlots and dairies. As a result, the Department must still conduct inspections for unbranded cattle, and for cattle whose owners lack self-inspection privileges or appropriate paperwork. Additionally, while the Department has located several inspectors in rural areas to help alleviate some of the problems created by the geographic dispersion of the cattle industry, inspectors still travel extensively.

Revising inspection fees—As indicated in Table 4 (see page 16), Arizona has one of the lowest cattle inspection fees when compared to ten other Western states surveyed by Auditor General staff. These other states employ various methods to recover their inspection costs. Many recover their travel costs by charging either a minimum fee for inspecting small numbers of cattle, or by charging a time and mileage fee if inspectors have to travel to an inspection. For example, Oregon targets high-cost inspections by adding a \$10 travel fee when inspectors must travel to the animal. Also, when inspectors travel to inspections involving ten

Table 4

**Arizona Department of Agriculture
Animal Disease, Ownership and Welfare Protection Program
Comparison of Cattle Inspection Fees in Selected Western States
As of January 2000**

| State | Inspection Fee | Travel Fee |
|-------------------------|---------------------------------------|---|
| Arizona | \$3 plus .25/head | |
| California | \$.90/head or \$10, whichever is more | |
| Colorado | \$.40/head or \$10, whichever is more | \$.28/mile ¹ |
| Idaho | \$.75/head | \$3 |
| Montana | \$.35/head | |
| Nevada | \$.70 head or \$7, whichever is more | \$12/hour plus \$.325/mile ² |
| New Mexico | \$5 plus .35/head | |
| Oregon | \$.75/head | \$10 |
| Utah | \$.50/head or \$3, whichever is more | |
| Washington ³ | \$.60/head | \$15/hour plus \$.31/mile |
| Wyoming | \$1.00/head | \$3 |

¹ Charged only when an inspector must travel to inspect unbranded, unweaned calves going to sale barns.

² Time and mileage charged only when inspectors travel to inspect fewer than 11 head of livestock.

³ When inspectors travel, they charge the higher of the per head fee or the travel fee.

Source: Auditor General staff telephone survey of state livestock inspection staff in the states listed.

or fewer head of cattle, Nevada charges a \$12 per hour travel fee and \$.325 per mile fee to recover travel costs.

The Legislature should consider adding a travel surcharge for customers who request inspectors to travel to their property.

Therefore, the Legislature should consider instituting a travel fee because time spent traveling represents a significant portion of the inspection cost. The Legislature could consider retaining the current \$3 fee plus \$.25 per head, but also allow the Department to impose a travel fee that would recover more of its time and mileage expenses for traveling to inspect livestock. Additionally, this fee would only be charged to customers who request that Department inspectors travel to their property to provide inspection services. Based on the estimated cost of over \$14 for a typical inspection, the majority of which is for travel costs, the Legislature could consider granting the Department the authority to impose an additional travel fee not to exceed \$15. With this

authority, the Department could then establish a travel fee that reflects its travel costs, but also have the flexibility to modify the fee as those costs change.

The cattle industry may now be more receptive to exploring proposals to increase inspection fees. The existing fee level was established in 1982, and the industry has historically resisted proposals to increase it on the grounds that fee increases would be detrimental to business. However, a representative from the Arizona Cattlemen's Association stated that the industry would be more receptive to a travel fee if the Department and the industry work together to improve the inspection processes.

Changes needed to keep costs as low as possible—The Department could improve its inspection process by reducing the travel associated with inspections. To reduce travel time, the Department should:

- **Conduct regular, centralized inspections**—The Department should promote regular, centralized inspections at convenient locations, including places where inspectors are already located, such as auctions. Owners could bring their cattle to these locations when they transfer ownership or move cattle out of state. Encouraging owners to bring their cattle to the inspection site would reduce the number of inspector travel miles and thus reduce the cost of these inspections. Additionally, to encourage owners to bring their cattle to a centralized location, the Department could reduce or eliminate the recommended travel fee. Furthermore, promoting centralized inspections would enable the Department to allocate its limited inspection staff resources more efficiently.
- **Promote inspections at locations convenient for both the inspector and the cattle owner**—In addition to conducting inspections at central locations, the Department could encourage its inspectors to meet cattle owners at a convenient mid-point rather than traveling to the owner's home or ranch. For example, when owners request an inspection, they could be encouraged to meet an inspector at a mutually convenient location. To give the owner an incentive, the inspector could reduce the proposed travel fee. The Department and a representative of the Arizona Cattlemen's Association

The Department should take steps to keep inspection costs as low as possible.

agree that inspectors already occasionally meet cattle owners at an agreed-upon central location, noting that there would be no reason why this could not become a common practice.

- **Increase number of part-time inspectors**—In addition to establishing convenient locations for inspections, the Department should consider increasing the number of part-time inspectors it employs. Locating more part-time inspectors in rural areas would reduce the number of miles that inspectors travel, and increase the Department’s ability to respond to inspection requests in a timely manner, especially during the busy months of the year. Currently the Department is planning to replace many of its full-time peace officers with full-time inspectors. The Department should also consider replacing some of these officer positions with part-time, regionally based inspectors. Additionally, since part-time inspectors are paid less than full-time inspectors, increasing the number of part-time inspectors could potentially lower inspection costs.

Recommendations

1. To reduce duplicative inspections, the Legislature should consider amending A.R.S. §3-1336(A) to eliminate the need for the Department to conduct pre-transit cattle inspections to auctions and feedlots.
2. The Department should significantly reduce the number of pre-transit cattle inspections it conducts at the owner's property by allowing owners to transport cattle to an auction or feedlot without this inspection and instead allowing previous ownership inspection documentation to identify cattle during transit.
3. The Legislature should consider amending A.R.S. §3-1337 to give the Department the authority to impose a travel fee not to exceed \$15. Implementing this travel fee would allow the Department to recover its travel costs from customers who request the Department's inspectors to travel to their property to provide inspection services.
4. To reduce travel costs associated with inspections, the Department should:
 - a. Promote regular, centralized inspections at convenient locations.
 - b. Adopt a policy encouraging inspectors to meet cattle owners at a convenient mid-point rather than traveling to the owner's home or ranch.
 - c. Consider replacing some of the full-time officers, through attrition, with part-time or seasonal inspectors to increase the ability of inspectors to respond to the seasonal and geographically dispersed nature of the industry.

(This Page Intentionally Left Blank)

FINDING II

CURRENT FEE DOES NOT SUPPORT INSPECTION COSTS FOR HORSE REGISTRATION

Although horse registration is mandated by law, the current fees charged to register horses with the State do not support the Department's costs for performing horse registration activities. These inspection fees, which are set by statute, are insufficient to cover the Department's costs and are substantially lower than fees charged in other Western states. The Legislature should consider increasing the current inspection fee and adopting a separate travel fee, while the Department should take steps to keep inspection costs as low as possible.

Department Responsible for Registering Horses

*Nonracing horses need an
ownership-hauling certificate.*

A.R.S. §3-1344 charges the Department with issuing lifetime horse (i.e., horses, mules, and burros) ownership and hauling certificates. By identifying the horse and its owner, these certificates help to protect against theft and allow owners to freely transport their horses throughout the State. Currently, A.R.S. §§3-1331, 3-1344, 3-1336, and 3-1444 require that owners of horses, other than those registered in the racing industry, obtain these certificates before weaning the horse, or within 30 days of bringing a horse into the State. The Department issues these hauling certificates after inspecting the animal, verifying its ownership, and drawing a likeness of the horse on the certificate. Each inspection costs the owner \$5 and produces a certificate that is valid for the life of the horse. The Department reports that it inspected nearly 15,000 horses in fiscal year 1999, and more than 19,000 in fiscal year 1998.

When a state-registered horse is sold or ownership is transferred, an inspection is not required. Instead, the new owner of the horse completes a transfer request form and remits this form with \$5 to the Department. The Department then issues a new

ownership certificate to the new owner. In fiscal year 1999, the Department collected over \$150,000 in horse inspection, registration, ownership transfer, and replacement registration fees.

While the need for mandatory horse registration was reviewed during this audit, it was difficult to draw conclusions because of the wide variety of registration processes and opinions that exist. For example, of the ten other Western states reviewed, only Arizona requires mandatory lifetime horse registration, while California does not register horses. The other states surveyed are somewhere in between.¹ Most states contacted require horses to be inspected at transfer of ownership or with the movement of the horse over a certain distance, but provide additional registration or permitting options to lifetime registration. Further, while registration was thought to help to protect against theft, few horses are reported stolen. In fact, Department records show that there were only 16 reported cases of horse theft in fiscal year 1999. However, the Department indicates that registration is useful for resolving ownership disputes, which occur more frequently than theft. Finally, alternate means may exist for registering horses. State law exempts privately registered racing horses from state registration, and the Arabian Horse Association sought but did not receive a similar exemption during the 2000 legislative session.

Inspection Process Needs Improvement

The Legislature and the Department should consider steps that would allow the Department to recover more of its inspection costs through fees while at the same time reducing the travel costs associated with inspections. Currently, the \$5 statutory horse inspection fee is able to recover only a portion of the inspection costs incurred by the Department for getting the inspector to the animal and conducting the inspection.

¹ Of the states contacted, those that register horses are Colorado, Idaho, Nevada, New Mexico, Montana, Oregon, Utah, Wyoming, and Washington.

Department cannot recover costs for horse inspections—The Department's horse inspections currently cost far more in direct time and travel costs than it can charge for these inspections. An inspection costs the Department \$14.50 in the inspector's travel and inspection time, and expenses necessary to operate and maintain vehicles, based on a statistically valid random sample of 219 horse inspections. The current \$5 inspection fee covers approximately a third of these costs. Much of the gap results from travel costs. A typical inspection requires an inspector to travel 11.5 miles one-way to the horse owner's residence, and almost half of the estimated \$14.50 cost is the result of inspector travel time and vehicle operating costs. In many cases, the costs are much higher. For example:

- In March 1999, the Department sent an inspector nearly 39 miles one-way to inspect one horse. While the inspector collected a \$5 inspection fee, the Department's costs in time and mileage for this one-way trip were estimated to be over \$25.
- In another case, an inspector traveled 36 miles one-way to inspect two horses. Although the inspector collected \$10, the inspection, travel time, and mileage costs were nearly \$60 for this one-way trip.

The Legislature should consider increasing the horse inspection fee and adopting a separate travel fee to cover more costs.

Legislature should consider increasing inspection fee and adopting a separate travel fee—To allow the Department to recover more of its costs, the Legislature should consider raising the current inspection fee and adopting a separate travel fee that the Department could require when inspectors travel to conduct horse inspections. Specifically, analysis suggests that the Legislature could increase the \$5 inspection fee to potentially \$10 while granting the Department the authority to establish a separate travel fee through administrative rule. While the current \$5 fee has been in place since 1988, increasing this fee and adding a travel fee will allow the Department to more accurately match these fees to inspection costs. In giving the Department authority to establish a travel fee, the Legislature could limit the amount of the fee. For example, it could allow the Department to set an appropriate travel fee, not to exceed a maximum of \$15. Finally, because travel represents a significant portion of the total inspection cost, the Department should ensure that it accurately captures the costs of travel in the proposed fee.

Department officials and members of the horse industry acknowledge the need to alter the horse inspection fee structure. Department management indicates that the current fee is inappropriately low and that an increase in the horse ownership-hauling certificate fee along with the adoption of a separate travel fee is justified. Additionally, members of the Arizona Cattlemen's Association and the Arizona State Horsemen's Association indicate that it would be appropriate to review the current inspection fee. For example, a representative of the Horsemen's Association indicated that the current fee is negligible and could conceivably be raised much higher without unduly burdening horse owners.

A review of other states supports a higher fee and a travel surcharge. The nine surveyed states with lifetime horse inspection fees charge from \$10 to \$25 for one horse, compared to Arizona's current inspection charge of \$5. Further, six of the nine charge time and mileage fees, inspection surcharges, or minimum fees to recover travel costs.¹ For example, in 1997 Colorado's Department of Agriculture calculated that it costs approximately \$12.25 for each horse inspection. As a result, Colorado re-examined its fee, implementing a \$10 base fee, plus \$15 per horse inspected. Further, Nevada also takes the cost of inspector travel into account by charging a flat inspection rate per horse, or a \$12 per hour and 32.5 cents per mile travel fee, whichever is higher.

Department should improve process so that inspections are conducted more efficiently—Although higher fees are needed to recover costs, the Department should also explore ways to conduct more efficient inspections and keep costs as low as possible. Specifically, the Department's horse registration program should adopt the same measures recommended to reduce travel for cattle inspections (see Finding I, pages 9 through 19). For example, the Department should develop and promote a regular schedule of times and locations where inspectors are available for inspections and also encourage inspectors to meet owners at an agreed-upon location other than the owner's property to reduce the travel associated with inspections. To give horse owners an incentive to bring the animals to inspectors, if

The Department should take steps to reduce inspection costs.

¹ The six states are Colorado, Nevada, New Mexico, Utah, Washington, and Wyoming.

the Legislature grants the Department the authority to increase inspection fees, the Department could institute a reduced fee that reflects savings in inspector time and travel.

Recommendations

1. The Legislature should consider amending A.R.S. §3-1344(B) to increase the current inspection fee and allow the Department to institute a separate travel fee not to exceed a maximum amount established by the Legislature.
2. Pending legislative approval and granting of authority, the Department should adopt an appropriate travel fee that would allow it to recover the costs of traveling to horse inspections. As these costs change, the Department should modify the travel fee to reflect these costs.
3. The Department should reduce travel expenses of the horse ownership-hauling certificate and its inspection process by:
 - a. Establishing a regular schedule of inspection times at central locations and encouraging horse owners needing inspections to transport horses to these locations; and
 - b. Encouraging horse owners to meet inspectors at mutually convenient locations rather than traveling to the horse owner's property.
4. To provide incentive to horse owners, the Department should waive the travel fee if owners bring their horses to the Department's inspection staff, or a mutually agreed upon location for inspection.

(This Page Intentionally Left Blank)

OTHER PERTINENT INFORMATION

During the audit, other pertinent information was gathered regarding the Department of Agriculture's current efforts to prevent, detect, and limit the spread of livestock diseases.

Animal Disease Control Program

While Arizona remains free of many livestock diseases, the Department of Agriculture and its Office of the State Veterinarian are taking additional steps to protect the public and Arizona livestock from a number of harmful diseases. The Department and the federal government have targeted and tracked six major livestock diseases. To detect and eliminate these and any other livestock diseases appearing in the State, the Department monitors cattle shipped to Arizona, coordinates disease identification, and investigates and quarantines infected animals. In an effort to further detect diseases, the Department is introducing a new training program that will enable livestock inspectors to help identify these diseases.

Potentially dangerous diseases targeted—To help guard the public and livestock from diseases spread through animals, the federal and state governments work together to track and eliminate six targeted livestock diseases. Not only do these diseases threaten other domestic animals and possibly humans, they also pose a potential risk to the Arizona livestock industry. Specifically, industry officials indicate that the appearance of disease in cattle could limit the marketability and use of Arizona livestock, possibly creating a hardship to the estimated 2,000 commercial livestock operators in the State. The six major diseases being tracked are:

- **Equine Infectious Anemia**—A viral disease affecting horses, mules, and donkeys, equine anemia is related to the virus that causes AIDS in humans. While this disease is not known to transfer to humans, it can kill infected animals. There were seven identified cases of equine infectious anemia in Arizona during fiscal year 1999.

- **Brucellosis**—Brucellosis causes cows to be slow breeders, miscarry calves, or become sterile. It can be transmitted to other animals and rarely, humans, in the form of undulant fever. Undulant fever can cause severe intermittent fever, psychoneurosis, weakness, and headaches, but is rarely fatal. There have been no reported cases of brucellosis in Arizona for over three years.
- **Bovine Tuberculosis**—Bovine tuberculosis is spread as cattle inhale tuberculosis bacteria from infected animals. Symptoms include the growth of lumps in the animal's lungs, bones, or lymph glands. The disease can be spread to humans through the consumption of unpasteurized milk. It has been largely eradicated in the United States, and there have been no cases of bovine tuberculosis reported in Arizona for over three years.
- **Swine Pseudorabies**—Swine contract pseudorabies, a form of herpes, from infected swine or other wildlife. The disease causes fever, loss of appetite, convulsions, and even death, and is spread as healthy animals are exposed to infected swine. While the disease can be transferred to other animals, it does not affect humans. There have been no cases of this disease reported in Arizona in over three years.
- **Psoroptic Mange**—Commonly infecting cattle and sheep, psoroptic mange is carried by mites. The disease causes intense itching and lesions on infected animals, resulting in hair loss. The disease is easily treated by sprays, dips, or injections and is believed to have been eradicated in the United States.
- **Boophilus Ticks**—Also called Cattle Fever Ticks, these parasites are considered the most serious tick threat to livestock. Not only do they cause debilitating infestations, but they also carry diseases. While present throughout the world, these ticks are not found in the United States. However, federal regulations require foreign cattle to be inspected and dipped to prevent the ticks from being reintroduced into the United States.

Department of Agriculture carries out animal disease control in Arizona—Arizona's State Veterinarian is charged with detecting and controlling these targeted diseases, as well as other infectious diseases that threaten Arizona livestock, by:

- **Requiring proof that imported cattle are disease-free**—Arizona requires owners importing livestock to prove that their animals are healthy before they enter the State. Livestock imported into Arizona must have a health certificate issued by veterinarians or other state officials in their origin state, and apply for and receive an Arizona entry permit. These documents are checked by Department staff if the animals pass through one of the four state entry ports manned by the Department, although no physical inspection of incoming animals occurs. Further, the State Veterinarian maintains the authority to quarantine any animal lacking the appropriate documents, or refuse entry to livestock from any state or county with a disease outbreak. Nevertheless, animals not arriving through one of these ports do not necessarily have their papers checked.
- **Coordinating the identification of infected animals within Arizona**—The State Veterinarian works closely with local veterinarians by collecting and disseminating reports on the appearance of infected animals. For example, under state and federal regulations, Arizona veterinarians must immediately report an incidence of any of the six targeted diseases to the State Veterinarian. Further, the State Veterinarian collects reports of disease outbreaks from Arizona dairies, who regularly test their herds for tuberculosis. Finally, the Department receives blood samples for all cattle killed in Arizona slaughterhouses and tests these animals for bovine brucellosis. Further, the State Veterinarian may take custody of any animal to determine if it is infected with a contagious disease.¹
- **Taking measures to identify and eradicate diseases**—The State Veterinarian is also charged with investigating potentially diseased livestock, and eliminating identified infestations. Specifically, veterinarians working for the State

¹ This authority is granted under A.R.S. §3-1205(B).

investigate the outbreak by examining the infected animal and tracing its movements through ownership and transportation documents issued by the State's cattle inspectors. The State Veterinarian may also establish quarantines, destroy infected animals, or control the movement of animals or agricultural products to limit the spread of the disease.

Department taking additional steps to detect livestock disease—The Department is currently responding to industry concerns over the potential threat of livestock disease by increasing staff training. As noted in Finding I (see pages 9 through 19), the Department inspects livestock sold or transported in Arizona to verify ownership. During fiscal year 1999, Department staff inspected approximately 664,000 livestock. However, officials in the livestock industry believe that while ownership verification remains important, livestock disease represents a potentially greater threat to the industry and therefore, the Department should enhance its focus on inspecting livestock for potential diseases.

The Department developed a training program for identifying diseased animals.

Therefore, the Department instituted a new inspector training program in March 2000 designed to increase inspectors' ability to identify infected cattle, horses, or sheep. Currently, as the Department's inspectors check for ownership, those with sufficient knowledge of livestock diseases visually observe animals for the presence of disease. However, a majority of the Department's livestock inspectors have not been trained to visually inspect for disease and thus cannot assist in detection efforts. Therefore, the State Veterinarian developed a training program for livestock inspectors. The 40-hour mandatory program teaches inspectors to recognize the six diseases targeted by federal and state governments, and other diseases seen in the United States or in animals imported from abroad. The program also includes practical demonstrations for examining livestock. Once this training is completed, the Department plans to require staff to take annual supplementary courses.

Other Pertinent Information

This training program places Arizona among the most advanced of the ten Western states surveyed for this audit. Specifically, of these ten states, only Utah has a regular program that trains inspectors on how to identify diseases. According to the state's chief livestock inspector, for at least ten years, Utah's State Veterinarian has required livestock inspectors to attend biannual seminars that include animal health training. During these seminars, inspectors are taught how to identify livestock that have not met the state's inoculation requirements, or livestock that are infected with disease.

¹ These states are California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

(This Page Intentionally Left Blank)

AGENCY RESPONSE

May 25, 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, Animal Disease, Ownership and Welfare Protection Program 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 identified many of the issues documented in your report as areas for improvement and has 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,

A handwritten signature in black ink, appearing to read "Sheldon R. Jones", written in a cursive style.

Sheldon R. Jones
Director

SRJ: NW

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.

We believe the ADA, while it continues to identify methods of improving its delivery of service to Arizona's commercial and non-commercial livestock owners, is accepting the challenge of regulating agricultural activity in an increasingly changing environment. We take very seriously our mission and our charge to regulate and support Arizona agriculture in a manner that promotes farming, ranching and agribusiness while protecting consumers and natural resources.

The Animal Disease, Ownership and Welfare Protection program is designed to regulate the importation of livestock, ratites, and live fish into Arizona. By regulating the importation of this segment of animal agriculture, the Department is able to identify, diagnose, and even prevent the establishment of emerging diseases that would threaten those industries. Through its monitoring and preventative actions, the program assists in ensuring that dangerous animal diseases and pests are not established in Arizona's livestock herd populations, thereby supporting the supply of safe and wholesome animal food products to the consuming public.

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. Arizona's animal agriculture industry is changing at a rapid rate. Arizona's urban equine ownership today is at record levels, forcing the Department to find new ways to service a segment of the community that may not have any other connection with production agriculture.

There was a time when the greatest threat to a livestock owner was theft. Times have changed. Today, animal diseases, some of them zoonotic, are the greatest threat to Arizona's livestock owners. For the commercial livestock producer, any single animal disease infestation could result in lost markets, diminished income, and could mean the difference between realizing a profit and taking a loss. In response to these changes, the Arizona Department of Agriculture, prior to this audit, structured and began implementing a plan to replace some of our peace officer trained livestock officers, through attrition, with the hiring of livestock **inspectors**. Our educational and training focus of our livestock inspection program is on animal health rather than animal theft.

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. The livestock industry has embraced this millennium with great optimism and is eager to meet the challenges of competing in a global marketplace. By incorporating the recommendations of this audit with the current improvement efforts underway, the Arizona Department of Agriculture stands poised to assist the industry well into the future.

As indicated in the Auditor General's report, certain characteristics of the program 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 in conjunction with suggestions made by the public and industry to explore new efficiencies in our delivery of service to Arizona's commercial and non-commercial livestock owners.

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

Finding I: Several Changes Needed to Improve Cattle Inspection Process

Recommendation 1: To reduce duplicative inspections, the Legislature should consider amending A.R.S. §3-1336(A) to eliminate the need for the Department to conduct pre-transit inspections to auctions and feedlots.

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

The Arizona Department of Agriculture agrees with the findings of the Auditor General and will cooperate with the regulated industry to implement this audit recommendation, if the Legislature so directs.

Recommendation 2: The Department should significantly reduce the number of pre-transit cattle inspections it conducts at the owner's property by allowing owners to transport cattle to an auction or feedlot without this inspection and instead allowing previous ownership inspection documentation to identify cattle during transit.

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

The Arizona Department of Agriculture has begun implementing this recommendation. While statutes require that cattle receive a pre-transit inspection, the Arizona Department of Agriculture is allowing current ownership inspection documents to suffice as identification of non-commercial cattle during transit. This has proven especially useful for the casual, non-commercial livestock owner or cattle hobbyist. The Department is enabled to reduce the number of potentially duplicative pre-transit inspections it conducts by verifying the ownership of the animal at its destination.

The biggest challenge the Department faces in this effort to reduce the number of pre-transit inspections it conducts on non-commercial cattle is the fact that many casual cattle owners or hobbyists do not retain the proper ownership inspection papers. The Department recognizes the net efficiencies of time and resources that may be gained by allowing ownership inspection documentation to suffice as identification during transit. To realize these efficiencies, the Department is committed to develop methods to educate the public on the importance of maintaining the proper paperwork from the time the animal is purchased to the time it is sold or slaughtered.

It is also important to note, however, that it remains necessary to conduct an inspection at the owner's property to verify ownership of any offspring prior to any transit.

For the commercial cattle operator, the Arizona Department of Agriculture worked closely with cattle industry leaders to develop the self-inspection program. This program was created, as the report summarizes, to reduce the number of inspections the Department performs. Under this program, the Department has granted self-inspection rights to over 800 cattle operations that may transit their cattle to a destination where ownership is later verified by a Department inspector.

Recommendation 3: The Legislature should consider amending A.R.S. §3-1337 to give the Department the authority to impose a travel fee not to exceed \$15. Implementing this travel fee would allow the Department to recover its costs from customers who request the Department's inspectors to travel to their property to provide inspection services.

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

The Arizona Department of Agriculture agrees with the finding of the Auditor General and will cooperate with the regulated industry to implement an appropriate travel fee, if the Legislature so directs.

Recommendation 4: To reduce travel costs associated with inspections, the Department should:

- a. Promote regular, centralized inspections at convenient locations.
- b. Adopt a policy encouraging inspectors to meet cattle owners at a convenient mid-point rather than traveling to the owner's home or ranch.
- c. Consider replacing some of the full-time officers, through attrition, with part-time or seasonal inspectors to increase the ability of inspectors to respond to the seasonal and geographically dispersed nature of the industry.

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

The Arizona Department of Agriculture agrees to the finding and recommendations and is, in fact, already operating with the goal of fully implementing these recommendations where possible.

First, the Arizona Department of Agriculture presently attempts to centralize its ownership inspection activities at the points of sale or slaughter. By providing centralized inspections, the Department is able to reduce travel time associated with numerous inspections and additionally provides timely service to the requesting public.

Second, the Arizona Department of Agriculture presently allows its inspection staff to meet cattle owners at a convenient mid-point rather than traveling to the owner's home or ranch. The Department will implement the audit recommendation by formalizing this position in policy.

Third, the Arizona Department of Agriculture believes that the role of a regulatory agency is as much about compliance assistance as it is about penalizing those who violate the law. Inasmuch as we are able, the Department advocates for the decriminalization of livestock movement violations.

The Department will implement the third portion of the recommendation by considering replacing the officer, through attrition, with part-time or seasonal inspectors. In its long range strategic vision, the Arizona Department of Agriculture has already implemented a plan of reducing certified peace officers, through attrition, over the next few years. The vacant positions created by this plan will be filled with livestock inspectors who, as the report emphasized in the "Other Pertinent Information" section, will be trained to identify a number of animal health problems in the field.

The Department's long term strategic vision for the Livestock Inspection program has long been an issue of discussion among numerous agricultural associations and the Department plans to continue its strong relationship with its stakeholders to effect any necessary changes.

Finding 2: Current Fee Does Not Support Inspection Costs for Horse Registration

Recommendation 1: The Legislature should consider amending A.R.S. §3-1344(B) to increase the current inspection fee and allow the Department to institute a separate travel fee not to exceed a maximum amount established by the Legislature.

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

The Arizona Department of Agriculture agrees with the findings of the Auditor General and will cooperate with the regulated industry to implement this audit recommendation, if the Legislature so directs.

Recommendation 2: Pending legislative approval and granting of authority, the Department should adopt an appropriate travel fee that would allow it to recover the costs of traveling to horse inspections. As these costs change, the Department should modify the travel fee to reflect these costs.

Agency Response: *The finding of the Auditor General is agreed to and, pending the approval of the Legislature and granting of authority, the audit recommendation will be implemented.*

The Arizona Department of Agriculture agrees with the findings of the Auditor General and will cooperate with the regulated industry to implement this audit recommendation, if the Legislature so directs.

Recommendation 3: The Department should reduce travel expenses of the horse ownership-hauling certificate and its inspection process by:

- a.* Establishing a regular schedule of inspection times at central locations and encouraging horse owners needing inspections to transport horses to these locations; and
- b.* Encouraging horse owners to meet inspectors at mutually convenient locations rather than traveling to the horse owner's property.

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

The Arizona Department of Agriculture has begun work on implementing both components of the audit recommendation. Presently, the Arizona

Department of Agriculture has begun working on a public outreach campaign that educates Arizonans about the importance of registering their equines with the State and is exploring locations at which it may conduct regularly scheduled centralized equine inspections.

Other Performance Audit Reports Issued Within the Last 12 Months

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

Future Performance Audit Reports

Naturopathic Physicians Board of
Medical Examiners

Department of Agriculture's
Food Safety and Quality Assurance Program