



State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**DEPARTMENT
OF
AGRICULTURE**

**FOOD SAFETY AND
QUALITY ASSURANCE
PROGRAM
AND
NON-FOOD PRODUCT
QUALITY ASSURANCE
PROGRAM**

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

**Date of Report June 2000
Report No. 00-10**

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 Chevront
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
Ann Orrico—*Audit Senior*
Joseph McKersie—*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 28, 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—Food Safety and Quality Assurance Program and Non-Food Product Quality Assurance 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 a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

This is the third 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.

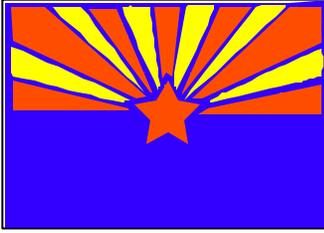
This report will be released to the public on June 29, 2000.

Sincerely,

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

Debbie Davenport
Auditor General

Enclosure

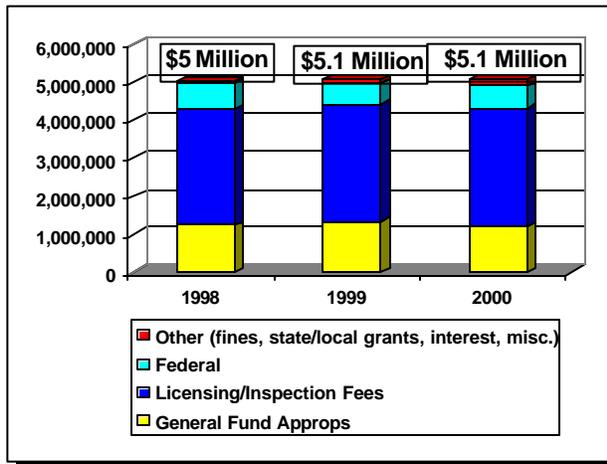


Program Fact Sheet

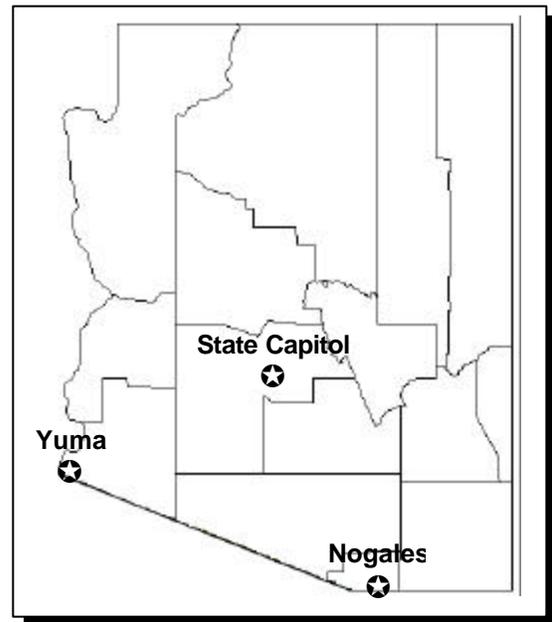
**Department of Agriculture
Food Safety and Quality Assurance Program**

Services: The Food Safety and Quality Assurance Program offers the following services: **1) Meat and poultry licensing and inspection**—Licenses and inspects slaughtering and processing facilities; **2) Dairy licensing and inspection**—Licenses and inspects dairy processing and distributing plants, dairy farms, and milk tankers; **3) Egg licensing and inspection**—Licenses egg producers and inspects eggs and egg products, as well as poultry and eggs used in school lunch programs; **4) Citrus, fruit, and vegetable standardization licensing and inspection**—Licenses produce growers, shippers, and dealers, and provides quality inspections of Arizona produce **5) Federal/state inspection**—Inspects produce imported from Mexico.

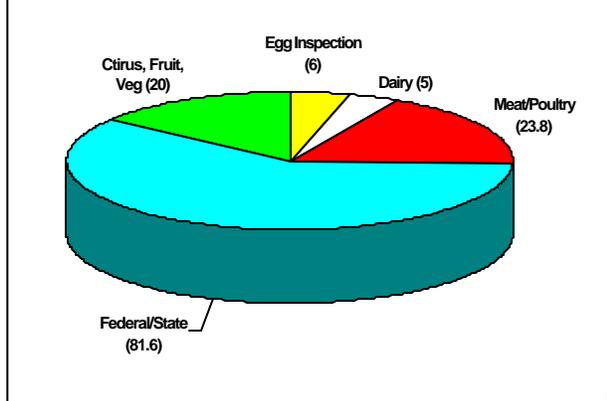
Revenue: \$5.1 million
(Estimated for Fiscal Year 2000)



Facilities: 3



Personnel: 136.5 FTEs (Fiscal Year 2000)



- Most inspectors are stationed at the Department’s office at the Capitol; and
- The USDA provides the Department with buildings in Nogales and Yuma for use in operating the Federal/State Inspection Program.

Equipment: State vehicles are the primary equipment used.



6 15-passenger vans



20 trucks



16 cars

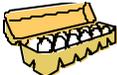
The Department leased 42 vehicles at a cost of approximately \$189,000 in fiscal year 2000.

Program Goals (Fiscal Years 2000 through 2002):

Subprogram 1: Animal Products Food Safety and Quality Inspection



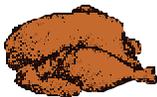
1. To provide an overview of inspection and regulatory measures.



2. To maintain an effective regulatory system of animal food product inspections.



3. To satisfy customer needs in responding to voluntary inspection and grading service requests from industry or the USDA.



Subprogram 2: Fresh Produce Standardization and Inspection



1. To provide an overview of inspection and regulatory measures.

2. To maintain an effective system of fresh produce inspections and field monitoring activities.

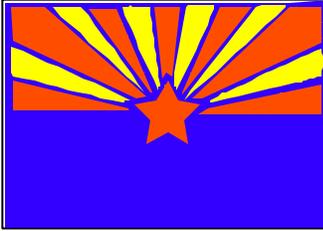
3. To increase efficiency of administrative operations.

4. To provide accurate and uniform federal-state inspection and grading services.

Adequacy of Goals and Performance Measures: The Department could make some improvements to the seven goals for its two subprograms and their associated performance measures.¹

- The program's goals incorporate too many performance measurements to effectively track performance. For example, under the goal, "To maintain an effective regulatory system of animal food product inspections," the Department has developed over 40 performance measures.
- While the program generally employs appropriate outcome and efficiency measures, the Department does not collect all the data necessary. For example, the Department has not collected the data to track enforcement actions taken by Fresh Produce Standardization and Inspection. Further, the Department does not report the number of days it takes to process license applications, a measure required by the Office of Strategic Planning and Budgeting.
- The Department has overstated its customer satisfaction results. The Department reports that 75 percent of the industry rated overall program satisfaction as excellent or good. However, to measure this, the Department surveyed 198 industry members but received only 37 responses.

¹ The Department included 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.

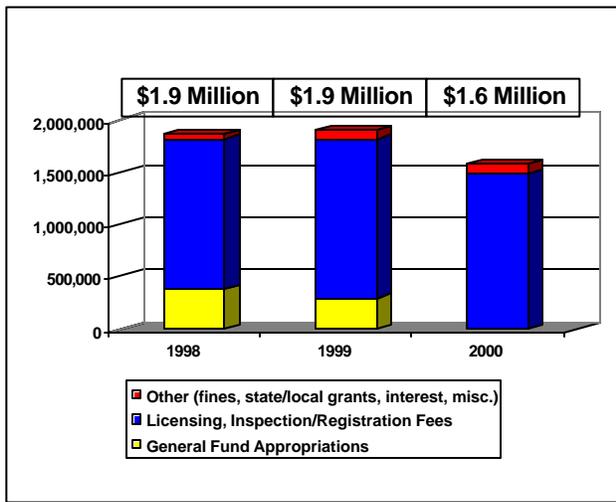


Program Fact Sheet

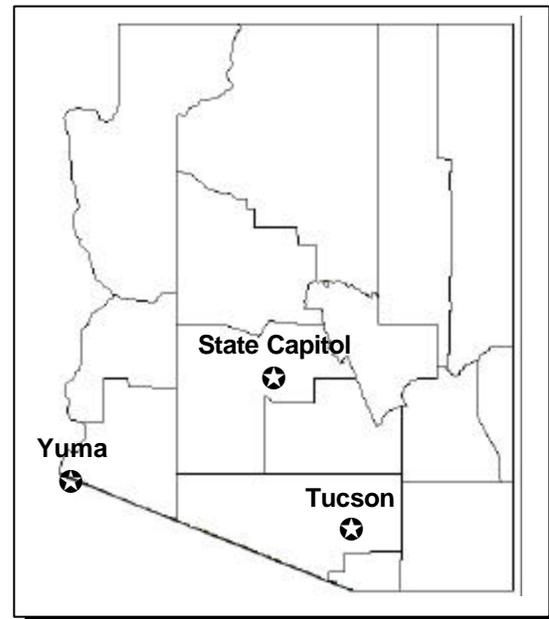
Department of Agriculture Non-Food Product Quality Assurance Program

Services: The Non-Food Product Quality Assurance Program offers the following services: **1) Product registration**—Registers pesticides and fertilizers; **2) Licensing**—Licenses feed, fertilizer, forage (hay), and seed dealers and labelers; **3) Inspection and sampling**—Inspects feed, fertilizers, pesticides, and seed, primarily at the retail level, and collects samples to ensure that label statements and product guarantees are adhered to.

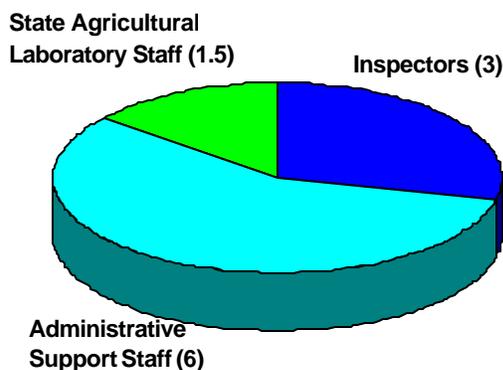
Revenue: \$1.6 million
(Estimated for Fiscal Year 2000)



Facilities: 3



Personnel: 10.5 FTEs (Fiscal Year 2000)



- Most staff are located at the Department's office at the Capitol, and
- The Department rents facilities in Tucson and Yuma at an annual cost of approximately \$13,880.

Equipment: State vehicles are the primary equipment used. Specifically, during fiscal year 1999, the Department leased 13 trucks at a cost of approximately \$19,500.

Program Goals (Fiscal Years 2000 through 2002)

1. To provide an overview of inspection and regulatory measures;
2. To provide accurate and timely licensing and registration services to customers as the first step in gaining compliance with feed, fertilizer, pesticide, forage, and seed regulations; and
3. To protect the interests of consumers by removing substandard non-food products from the market place.

Adequacy of Goals and Performance

Measures: While the Department's goals and performance measures are appropriate for the most part, some improvements could be made. Specifically:

- The Department has overstated its customer satisfaction results. The Department reports that 85 percent of its customers rated overall administrative processes as "excellent" to "good." However, to measure this, the Department surveyed 653 customers, but only received 62 responses.
- The Department does not have sufficient measures to assess the efficiency of its inspection and sampling function. For example, the Department lacks measures for determining the number of retail stores visited per inspector and the number of samples collected by inspector.

Finally, the Department would like to make some changes to its performance measures to better align them with the Department's enforcement authority. Specifically, one performance measure requires the Department to track the number of calendar days it takes manufacturers of non-food products to bring products into compliance from the date they are notified of noncompliance. While the Department can invoke its authority to issue fines or cease-and-desist orders, it has no authority over the number of days it takes a manufacturer to make a product compliant.

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture's Food Safety and Quality Assurance Program and its Non-Food Product Quality Assurance Program, pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. 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 third in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

The Department inspects meat, poultry, dairy products, eggs, and produce.

Since 1991, the Department has regulated various food and non-food product industries. Within its Food Safety and Quality Assurance Program, the Department protects the public health and safety through its meat and poultry, dairy, and egg inspection activities. Further, as part of this program, the Department inspects fresh produce grown in Arizona or imported from Mexico to ensure that Arizona-grown produce conforms to the State's minimum quality standards and that Mexican produce meets federal import requirements. Through its Non-Food Product Quality Assurance Program, the Department seeks to protect the public's interest by ensuring the quality of Arizona's feed, fertilizer, pesticide, forage (hay), and seed products.

Department Could Take Steps to Address Industry Concerns Regarding the CFV Standardization Program (See pages 9 through 18)

Through the Citrus, Fruit, and Vegetable Standardization Program (CFV), the Department is charged with ensuring that produce grown or sold in Arizona meets the State's minimum quality standards. The Department performs this function for the

benefit of Arizona’s citrus, fruit, and vegetable industry, and the industry funds the program through licensing fees and an assessment of .004 cents for every carton of produce shipped from Arizona growers/shippers. Although the CFV program is designed solely for the benefit of industry, industry respondents to an Auditor General survey had questions regarding the program’s value, interest in “opting out” of the program, and strong feelings against paying any more in assessments to increase available inspection resources. For example, while 39 percent of respondents (26 of 67) felt that assessment fees were too high to justify the benefits derived from the program, 94 percent of respondents are not willing to pay higher fees to expand the program’s inspection resources.

The program could operate more efficiently.

Although the Department and its CFV Advisory Council have taken some steps to improve the program, more could be done to help the program operate more efficiently with the resources it has. Specifically, even though the Department has an inspection sampling plan, it should develop a more systematic plan to assist in determining what commodities to inspect, the quantity of each commodity to inspect, and the specific growers to visit. Further, the Department should explore options for scheduling and/or centralizing some of its inspection activities, where appropriate, to maximize its inspectors’ time. Moreover, the Department could eliminate inspectors’ non-inspection related tasks, implement risk-based inspections to take violation histories into account, and improve its management of program data. Finally, the Department and the CFV Advisory Council should take steps to better communicate program information to all program participants, including information on opting out of the program.

Non-Food Product Quality Assurance Program Needs Improved Sampling Approach (See pages 19 through 23)

Although the Non-Food Product Quality Assurance Program often identifies instances of substandard quality in feed, fertilizers, pesticides, or seed, the program is not as effective as it could be. The Department is guided in its sampling efforts by sampling

plans. However, these plans lack some key components. Specifically, the Department's plans lack a sampling frame, which is a comprehensive list of retailers of the products being sampled, and do not specify which retailers inspectors should visit to collect product samples. Also, although the Department collects violation data from its sampling efforts, it does not effectively use this data to develop, monitor, or change its sampling of non-food products.

Previous violations should be considered in sampling.

While the Department established a committee in 1994 to develop sampling plans that would maximize consumer protection and public health and make efficient use of resources, the committee did not incorporate a comprehensive list of retailers to be sampled or sufficiently consider product or retailer violations. To ensure that its non-food product program adequately protects the public and makes efficient and effective use of resources, the Department should reconvene its sampling plan committee and develop and implement appropriate sampling plans. Moreover, the Department should ensure that the plans include sampling frames, to the extent possible, and adequately consider violation data. For example, to develop a sampling frame listing retailers of non-food products, the Department can begin by using its own data on licensees and product registrants as well the lists it has developed identifying the retailers it has visited annually during the past five years.

The Nogales Office Needs to Strengthen Its Cash-Processing Controls (See pages 25 through 28)

The Federal/State Inspection Service's Nogales Office can help prevent the loss or theft of state monies by making a number of changes to its cash-handling policies. The Office receives approximately \$2 million in inspection fees each year, primarily in checks. To better protect these monies, the Office should appropriately segregate cash-handling responsibilities by separating the billing function from cash collections. In addition, to safeguard checks received, the Department should immediately endorse checks and securely store them while using a receipt for processing. Further, to help track these monies, the Office should regularly reconcile the monies it receives to its deposits. Finally,

The Office collects almost \$2 million in fees.

the Office should develop and implement policies and procedures for handling cash and cash-like receipts and periodically request a procedural review from the State's General Accounting Office.

**Other Pertinent Information
(See pages 29 through 31)**

*The Department regulates
"exempt" facilities.*

During the audit, other pertinent information was gathered in response to legislative inquiries concerning the Department's current efforts to regulate exempt slaughtering and processing facilities. Not only does the Department regulate official slaughtering and processing facilities that process meat for intrastate sale, the Department also regulates exempt facilities, which produce meat for an animal owner's personal use. Because the meat processed at exempt facilities is not for sale and does not enter the public food chain, this industry is exempt from some of the USDA and state inspection criteria applicable to facilities that slaughter and process meat for public consumption.

To regulate the exempt industry, the Department licenses exempt facilities. Further, state regulations require that non-mobile exempt facilities be inspected at least twice a year. However, some facilities are inspected more frequently based on violation histories. These inspections focus on the sanitary conditions of the facilities, and the condition of the animals, but not on the associated meat. This level of regulation is similar to other Western states that regulate the exempt meat industry and is consistent with federal regulations. Moreover, the Department reports that it receives very few complaints regarding exempt facilities.

TABLE OF CONTENTS

	<u>Page</u>
Introduction and Background.....	1
Finding I: Department Could Take Steps to Address Industry Concerns Regarding the CFV Standardization Program.....	9
CFV Program Exists to Assist Industry.....	9
Some Industry Members Question Program’s Value	10
Department Could Explore Several Ways to Increase Coverage.....	12
Recommendations	18
Finding II: Non-Food Product Quality Assurance Program Needs Improved Sampling Approach	19
Program’s Sampling and Testing Efforts Identify Problems with Non-Food Products.....	19
Department’s Sampling Plans Lack Some Key Components.....	20
The Department Should Develop and Implement Appropriate Sampling Plans.....	22
Recommendations	23

TABLE OF CONTENTS (concl'd)

	<u>Page</u>
Finding III: The Nogales Office Needs to Strengthen Its Cash-Processing Controls	25
Office Fails to Sufficiently Protect Monies Collected.....	25
Department Needs to Develop a Policy and Procedures Manual.....	27
Recommendations	28
Other Pertinent Information	29
Agency Response	

Figure and Table

Figure 1	Department of Agriculture Organization of Food Safety and Quality Assurance and Non-Food Product Quality Assurance Programs As of March 31, 2000	2
Table 1	Arizona Department of Agriculture Food Safety and Quality Assurance and Non-Food Product Quality Assurance Programs Statement of Revenues, Expenditures, and Changes in Fund Balance Years Ended or Ending June 30, 1999 and 2000.....	6

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Agriculture’s Food Safety and Quality Assurance program and its Non-Food Product Quality Assurance 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 41-2957, and is the third in a series of audits to be conducted on programs within the Arizona Department of Agriculture.

Prior to the Department’s formation in 1991, Arizona’s food safety and quality assurance duties and non-food product quality assurance duties were carried out by four state agencies. The State Livestock Board conducted meat and poultry inspections, the State Dairy Commissioner regulated the dairy industry, and the State Egg Inspection Board ensured the quality of eggs. Still another agency, the Commission of Agriculture and Horticulture, was responsible for the quality of fresh Arizona-grown produce and regulated non-food products, such as feed, fertilizer, pesticides, and seed. When these agencies were combined to form the Department of Agriculture, the functions they performed became the Department’s responsibility.

Food Safety and Quality Assurance Program

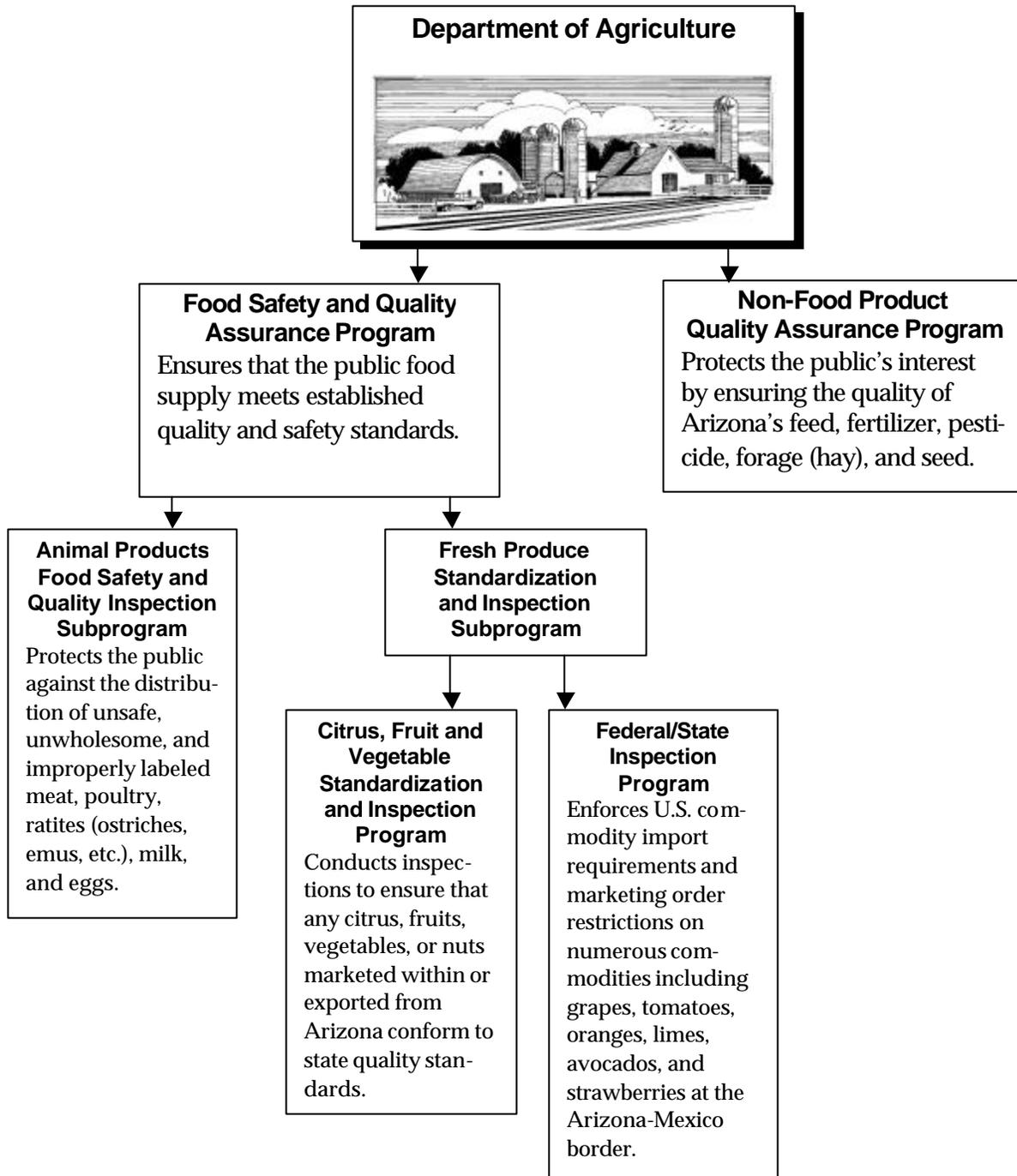
The Department inspects meat, poultry, dairy products, eggs, and produce.

The Department’s Food Safety and Quality Assurance Program is charged with ensuring that the public food supply meets established quality and safety standards. The program has two subprograms (see Figure 1, page 2):

- **Animal Products Food Safety and Quality Inspection Subprogram (34.8 FTEs)**—This subprogram’s role is to protect the public against the distribution of unsafe, unwholesome, and improperly labeled meat, poultry, ratites, milk and eggs. To protect the public health and safety, the

Figure 1

**Department of Agriculture
Organization of Food Safety and Quality Assurance
and Non-Food Product Quality Assurance Programs
As of March 31, 2000**



Source: Arizona Department of Agriculture Strategic Plan for Fiscal Years 2000 through 2002.

program collects and tests samples of meat and dairy products for microbiological, chemical, and physical food hazards. To ensure wholesomeness, meat inspectors are required to be present whenever regulated slaughtering or processing facilities are operating, and the Department's dairy inspectors conduct inspections of dairy farms, processing facilities, and milk tankers. Further, the Department's egg inspectors inspect eggs to determine if they meet United States Department of Agriculture (USDA) quality standards, and inspect the quality and safety of poultry and eggs used in the State's school lunch programs. Cooperative agreements with the USDA establish the health and quality standards to which meat, milk, eggs, and poultry are graded and inspected.

- **Fresh Produce Standardization and Inspection Subprogram (101.7 FTEs)**—This subprogram includes the Citrus, Fruit, and Vegetable (CFV) Standardization Program and the Federal/State Inspection Service Program. These programs seek to ensure the quality of fresh produce in accordance with either the State of Arizona or the USDA.

- **CFV Standardization Program**—As required by statute, the CFV Standardization Program conducts inspections to ensure that citrus, fruits, vegetables, or nuts marketed within or exported from Arizona conform to state quality standards. CFV inspectors attempt to ensure product quality by enforcing standards for minimum quality (i.e., size, maturity, color, firmness, and decay), and labeling, storage, handling, and refrigeration of citrus, fruit, and vegetables. The quality standards are not health standards and are not meant to protect the public from food-borne illnesses. Additionally, the CFV Program licenses all Arizona shippers, produce dealers, citrus dealers, and contract packers.

- **Federal/State Inspection Program**—Under a cooperative agreement first signed in 1996, Federal/State Inspection Services (FSIS) is charged with enforcing USDA quality standards on produce imported into the country including grapes, tomatoes, oranges, limes, avocados, and strawberries. The program's primary function is to enforce United States commodity import requirements and

CFV focuses on quality rather than health standards.

marketing order restrictions at the Arizona-Mexico border. Also, to comply with state regulations, federal/state inspectors inspect watermelons entering Arizona from Mexico to ensure that they meet the same state quality standards that Arizona-grown watermelons are held to by the standardization program. Finally, when requested by the industry, federal/state inspectors grade products under USDA quality grade standards at the shipping point (point of origin) or the terminal market (point of destination). The Department's inspectors typically conduct these voluntary inspections in Nogales, Phoenix, and Yuma.

■ **Food Safety and Quality Assurance Program Budget—**

This program receives monies from the federal government, industry sources, and the State General Fund. Specifically, as seen on Table 1 (see page 6), during fiscal year 2000,

- The Animal Products subprogram received an estimated \$575,500 in federal monies; \$286,200 in licensing fees; and over \$1.2 million in General Fund revenue to pay for its inspection and licensing activities.
- The CFV Standardization program, an industry-funded program, received an estimated \$196,000 in licensing fees and more than \$539,000 in fees generated through an assessment of .004 cents on each carton of fresh produce grown in Arizona.
- The Federal/State Inspection program received an estimated \$2 million, which was generated through inspection fees.

Non-Food Product Quality Assurance Program

Non-Food Product Quality Assurance Program (10.5 FTEs)—

This program seeks to protect the public's interest by ensuring the quality of Arizona's feed, fertilizer, pesticide, forage, and seed. To regulate the content and distribution of products that

The program ensures the quality of feed, fertilizers, forage (hay), pesticides, and seeds.

could potentially affect public health, this program registers pesticides and fertilizers used in Arizona; and issues licenses to feed, fertilizer, forage, and seed dealers and labelers. Additionally, inspectors collect feed, fertilizer, pesticide, and seed samples to ensure compliance with labeling and quality requirements. Inspectors also respond to individual consumer complaints regarding product quality concerns.

Non-Food Product Quality Assurance Budget—During fiscal year 2000 and as illustrated in Table 1 (see page 6), the Non-Food Product Quality Assurance Program generated an estimated \$1.6 million in product licensing and registration fees and inspection fees. As required by statute, the Department estimates it will transfer over \$689,000 in pesticide and fertilizer registration and licensing fees to the Water Quality Assurance Revolving Fund.

Audit Scope and Methodology

This audit focuses on the efficiency and effectiveness of the Department's CFV Standardization Program; the effectiveness of the Department's sampling and testing of non-food products to ensure adherence to label statements, product guarantees, and applicable laws; and the appropriateness of the cash-processing controls in place at its Federal/State Program's Nogales office. The audit also reviewed the Department's regulation of the exempt meat industry (meat processing or slaughtering facilities that are exempt from some of the USDA and state inspection requirements because the meat processed is not for sale and does not enter the public food chain). Methods used to study the issues addressed in this audit included the following:

- Surveying 144 citrus, fruit, and vegetable standardization licensees who were assessed fees in crop year 1999 (September 1, 1998 through August 31, 1999) and analyzing the 72 re-

Table 1

**Arizona Department of Agriculture
Food Safety and Quality Assurance and Non-Food Product Quality Assurance Programs
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended or Ending June 30, 1999 and 2000
(Unaudited)**

	Food Safety and Quality Assurance Program		Fresh Produce		Non-Food Product Quality Assurance Program	
	1999 (Actual)	2000 (Estimated)	1999 (Actual)	2000 (Estimated)	1999 (Actual)	2000 (Estimated)
Revenues:						
State General Fund appropriations	\$1,345,500	\$1,213,400			\$ 295,800	
Charges for services:						
Federal/state inspection fees			\$2,085,468	\$2,094,600		
Citrus, fruit, and vegetable inspection fees			513,804	539,700	375,119	\$ 375,100
Feed and fertilizer inspection fees					1,025,856	1,032,300
Pesticide and fertilizer registration fees						
Federal grants and contracts	549,357	575,500				
Licenses and permits	284,295	286,200	195,950	196,000	119,040	81,900
Other	25,214	25,000	103,842	140,700	87,310	91,400
Total revenues	<u>2,204,366</u>	<u>2,100,100</u>	<u>2,899,064</u>	<u>2,971,000</u>	<u>1,903,125</u>	<u>1,580,700</u> ¹
Expenditures:						
Personal services and employee related	1,291,328	1,315,800	2,356,812	2,765,600	583,251	423,300
Professional and outside services	9,589	28,700	97,997	282,200	46,797	87,000
Travel	123,787	122,500	214,556	201,000	59,856	51,700
Other operating and equipment	138,108	135,800	323,742	348,500	214,121	115,100
Total expenditures	<u>1,562,812</u>	<u>1,602,800</u>	<u>2,993,107</u>	<u>3,597,300</u>	<u>904,025</u>	<u>677,100</u> ¹
Excess of revenues over (under) expenditures	<u>641,554</u>	<u>497,300</u>	<u>(94,043)</u>	<u>(626,300)</u>	<u>999,100</u>	<u>903,600</u>
Other financing sources (uses):						
Operating transfers in (out)	(27,194)		421		(814,358) ²	(689,100) ²
Remittances to the State General Fund	(401,969) ³	(438,800)			(2,991)	(5,000)
Total other financing sources (uses)	<u>(429,163)</u>	<u>(438,800)</u>	<u>421</u>		<u>(817,349)</u>	<u>(694,100)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 212,391</u>	<u>\$ 58,500</u>	<u>\$ (93,622)</u>	<u>\$ (626,300)</u> ⁴	<u>\$ 181,751</u>	<u>\$ 209,500</u>

¹ Revenues and expenditures are expected to significantly decrease in 2000 since the Department reallocated General Fund resources to another program.
² Includes approximately \$734,000 and \$689,100 in 1999 and 2000, respectively, of pesticide and fertilizer registration and licensing fees transferred to the Water Quality Assurance Revolving Fund in accordance with A.R.S. §§ 3-272 and 3-351.
³ Includes approximately \$391,400 of United States Department of Agriculture Meat and Poultry Inspection monies due but not remitted to the State General Fund at June 30, 1999.
⁴ In 2000, the Department plans to expend a portion of the \$2.1 million beginning fund balance in the Federal State Inspection Fund; therefore, expenditures are expected to exceed revenues by approximately \$626,300.
Source: The Arizona Financial Information System Accounting Event Extract File and Status of Appropriations and Expenditures reports for the year ended June 30, 1999; and Division-prepared estimates of financial activity for the year ending June 30, 2000.

sponses (50 percent response rate) to evaluate licensees' satisfaction with the program and their recommendations for improvement.

- Analyzing citrus, fruit, and vegetable standardization licensing and assessment data for crop year 1999 to determine the program's funding and expenditures as well as how the program utilizes its inspection resources.
- Observing citrus, fruit, and vegetable standardization; meat and poultry; dairy; and egg inspections to determine the inspection processes for these agricultural commodities, and studying cash-processing activities at the Department's FSIS Nogales Office to determine the appropriateness of its cash-processing procedures.
- Attending two meetings of the Citrus, Fruit, and Vegetable Standardization Advisory Council to observe the Council's role in guiding the program, and meeting with industry members including the Yuma Vegetable Shippers Association, the Western Growers Association, and members of the Advisory Council to obtain their views on the CFV Program.
- Reviewing and analyzing the Non-Food Product Quality Assurance Program's current sampling plans for feed, fertilizers, pesticides, and seed to determine their adequacy.
- Contacting 12 Western states as well as the USDA and the Food and Drug Administration (FDA) regarding fresh produce standardization and exempt meat industry issues.¹

¹ California and Washington were contacted to determine the requirements of their fresh produce standardization programs and how inspections are carried out. The following ten Western states were contacted because they regulate exempt livestock slaughtering and meat processing facilities: California, Colorado, Idaho, Kansas, Montana, Oklahoma, Oregon, Utah, Washington, and Wyoming. The USDA and FDA were contacted to gather further criteria regarding regulation of the exempt meat industry.

Introduction and Background

- Conducting a literature review to obtain information on improving the efficiency and effectiveness of inspection programs, developing appropriate sampling plans, and establishing appropriate cash-handling controls.

The report presents findings and recommendations in three areas:

- The Department should address industry's concerns regarding the CFV program by taking steps to improve the program's operations.
- The Department's current sampling efforts are inadequate to ensure the quality and label accuracy of feed, fertilizer, pesticide, and seed products.
- The Department should strengthen its cash receipt controls at its Federal/State Inspection Service's Nogales Office.

In addition, the report contains Other Pertinent Information regarding the Department's regulation of the exempt meat industry.

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

DEPARTMENT COULD TAKE STEPS TO ADDRESS INDUSTRY CONCERNS REGARDING THE CFV STANDARDIZATION PROGRAM

Although the Department's citrus, fruit, and vegetable (CFV) standardization program exists primarily to benefit the agriculture industry, the Department's current operation of the program has resulted in some industry members questioning the need for the program. Concerns appear to center on the extent to which the program, which operates at a relatively minimal staffing level, manages to conduct inspections. At the same time, industry respondents appear strongly opposed to paying more for the program. With available resources, the best improvement options available to the Department are to develop a more systematic inspection plan, schedule more inspections in advance, reduce the time inspectors spend on other tasks, and make better use of inspection data to document coverage and focus inspection efforts on violators.

CFV Program Exists to Assist Industry

The CFV Program exists primarily for the economic benefit of Arizona's agriculture industry, not to ensure safe, quality products for consumers. Established in 1929 as the Fruit and Vegetable Standardization Service, Arizona law currently directs the CFV Program to inspect and enforce minimum quality standards for all citrus, fruit, vegetables, nuts, and dates either produced or sold in Arizona. Statute also provides for the CFV Standardization Advisory Council, which consists of various industry members and assists the Department by providing guidance and oversight of the program.

The CFV program exists for the benefit of Arizona's citrus, fruit, and vegetable industries.

Finding I

Under state law, minimum standards to be enforced under the program focus on physical appearance and taste, not on whether commodities are healthy or safe for human consumption. Minimum quality standards include factors such as size, maturity, color, firmness, and decay. For instance, CFV inspectors check head lettuce for broken midribs and tipburn, and cantaloupe and other melons for sugar content. The Department also inspects and enforces standards for containers, labeling, storage, handling, and refrigeration of fresh produce and licenses all Arizona shippers, produce dealers, citrus fruit dealers, and contract packers.

The program is funded entirely by industry.

The CFV Program, which will generate estimated fee revenues of over \$735,000 for fiscal year 2000, is funded entirely by industry. Approximately 27 percent of its revenue came from licensing fees, and the other 73 percent came from an assessment on each carton of product shipped from Arizona. While Arizona law permits an assessment of up to 1.25 cents per carton, the current assessment is .004 cents per carton. The assessment was reduced from .005 cents in 1998. The Department, in consultation with the CFV Advisory Council, sets the assessment amount.

Some Industry Members Question Program's Value

Although the CFV program is designed solely for the benefit of the industry, industry respondents to an Auditor General survey:

- (1) Questioned the program's value,
- (2) Expressed interest in "opting out" of the program, and
- (3) Voiced strong feelings against paying any more in assessments to improve the program.

Despite these concerns, CFV Program licensees expressed some positive opinions regarding the program. For example, over 60 percent of the respondents agreed that the benefits derived from the program were equal to or greater than the assessment and licensing fees they pay to support the program.

Some concern over level of inspections—An Auditor General survey of CFV program licensees who paid assessments during crop year 1999 (September 1, 1998 through August 31, 1999) shows that 39 percent of respondents (26 of 67) felt that assessment fees paid did not justify the benefits derived from the CFV program. Some respondents reported that they had never received or received few inspections of their products. For example, six growers/shippers reported never receiving any inspection during crop year 1999, despite paying over \$7,200 in assessment fees. Moreover, 73 percent of respondents (45 of 62) felt there would be no effect on their business if the CFV Program no longer provided inspections. Licensees offered several reasons for this, including the fact that their own internal quality control measures and those of their buyers were stricter than those imposed by the State.

Interest in opting out—Fifty-two percent of respondents (32 of 62) expressed interest in opting out of the CFV Program. Since 1998, state statute has allowed fruit and vegetable producers to opt out of the standardization program if at least 51 percent of the producers who produce at least 51 percent of the total quantity of a specific commodity agree to opt out. For example, the carrot industry opted out in crop year 1999. Consequently, carrot producers no longer receive inspection services, but also do not have to pay the standardization program assessment. The opt-out provision was added to state law to provide producers in specific commodity groups the opportunity to leave the CFV Program. However, even though the opt-out provision has been in state law for over two years, 54 of 71 (76 percent) survey respondents stated that they were not aware of this option.

Lack of interest in paying more to expand the program—The over \$735,000 in revenue the CFV program expects to generate during fiscal year 2000 funds 13.8 inspector FTEs.¹ This is an insufficient number to provide inspection services to all industry members contributing to the program as well as provide inspections of imported commodities. Although statute calls for the program to inspect commodities imported into the State as well

The industry does not want to pay more for increased inspections.

¹ In addition to inspector FTEs, program revenues also fund administrative positions and other resources, such as inspectors' vehicles and other equipment needed to perform inspections.

as those grown in Arizona, the Department has decided to allocate only a very small amount of its inspectors' time to conducting inspections at imported commodity distribution points, such as warehouses and retail stores. Specifically, during the crop year 1999 (October 1998 through July 1999), CFV inspectors spent an average of 2.1 percent of their time each month inspecting produce in retail markets and an average of 4.6 percent of their time each month inspecting produce in warehouses. However, some industry members feel the Department needs to devote more time to inspecting imported commodities that compete against Arizona-grown commodities to ensure a level playing field. Despite this fact, as well as the insufficient number of inspector FTEs, 94 percent of survey respondents (66 of 70) did not support an increase in assessment fees to expand the program's inspection resources.

Department Could Explore Several Ways to Increase Coverage

Given that the industry appears to want better services but does not want to pay more in assessments, auditors examined ways the CFV program might be able to operate more efficiently with the resources it has. It should be noted that the Department and the CFV Advisory Council have already taken steps in recent years to improve the program. For example:

More could be done to improve the efficiency of CFV inspections.

- The Department and industry have worked together to stretch available resources by employing seasonal or part-time inspectors during peak growing seasons.
- To improve the efficiency and reduce the cost of phytosanitary inspections, which certify that a product is disease- or pest-free and are required for foreign export, CFV inspectors now assist federally certified state inspectors with these inspections.

However, auditors were able to identify several other areas for improvement, including more systematic inspection plans, greater scheduling of inspections ahead of time, reductions in the amount of time spent on other tasks, and better data for docu-

Finding I

menting inspection coverage and focusing more efforts on violators. Finally, the Department should take steps to ensure all industry members are aware of program direction and changes and the program's opt-out provision.

Developing a more systematic inspection plan—While the Department has an inspection sampling plan, this plan does not assist it in systematically determining what commodities to inspect, the quantity of each commodity to inspect, and the specific growers to visit. Instead, inspectors, who are assigned to specific geographic zones, choose where to conduct inspections by driving around their inspection zones, stopping to inspect when they observe harvesting occurring. In the absence of a systematic inspection plan, the level of inspections provided by the Department varies by the type of commodity and the location of the grower/shipper. While some variance is expected, the current variance among products inspected is not defined or planned, but left to the discretion of individual inspectors. For example, in crop year 1999, CFV inspectors spent over 560 hours inspecting broccoli, but only 229 hours inspecting romaine lettuce. However, growers shipped more than 8.7 million cartons of romaine lettuce as compared to nearly 7.9 million cartons of broccoli. Further, because the Department's inspectors are based in Yuma and Maricopa Counties, growers in these counties typically receive a higher rate of inspections than growers in other counties, such as Cochise or La Paz.

A systematic inspection plan is important to ensure that the Department makes efficient and effective use of its limited resources. The Department should develop and implement a systematic inspection sampling plan that would provide guidance to inspectors regarding which commodities to inspect, the quantity of each commodity to inspect, and the specific growers to visit.

Scheduling inspections in advance—The Department does not maximize its inspectors' time by scheduling inspections. During calendar year 1999, the Department had approximately 24,100 hours of CFV inspectors' time available to perform CFV-related activities. While inspectors spent about 85 percent (20,464 hours) of this time performing CFV-related activities, only 8,557 hours, or 42 percent, of the 20,464 hours were spent performing inspec-

Only 42 percent of inspectors' time was spent performing inspections.

Finding I

tions. By contrast, from July 1999 through March 2000, inspectors spent almost 40 percent of their working hours driving between inspections.¹

Currently, the majority of the inspections take place in the field. For example, the Department has divided the Yuma area into 11 inspection regions containing fields where crops are grown. Instead of scheduling inspections with growers, inspectors, at their discretion, typically start at one end of their assigned region and work their way to the other end, stopping to inspect when they observe harvesting taking place. One inspector stated that because of the large size of the zones, this process could take up to a week. Furthermore, an inspector stated that if a commodity is being harvested in an area somewhere other than where the inspector is located, it will not be inspected.

Scheduling inspections would mean that a higher percentage of inspections would be done at agreed-upon times and locations, including centralized locations, rather than in the field. Such a change, while making the inspection program more efficient, may not have the support of all growers. Some industry members said that although inspecting commodities in the fields prior to packing increases inspectors' driving time, this type of inspection best suits their needs. However, industry members agreed that efficiencies could be gained if some inspection activities could be scheduled and industry would support scheduling, as long as it does not increase their costs to comply with the program.

The Department, in consultation with the CFV Advisory Council, should explore options for scheduling and/or centralizing some of its inspection activities where appropriate. Currently, the Department does inspect some commodities, such as melons, at central locations. This has reduced the amount of driving that inspectors must do. The Department should explore further opportunities for centralized inspections and develop a process whereby some inspections could be scheduled. For example, Imperial County, California, schedules inspections by having licensees notify the County when harvesting will be occurring. This allows the program in Imperial County to more efficiently

The Department should explore centralized inspections.

¹ Prior to July 1999, the Department did not track inspector drive time.

use its inspectors. While the industry expressed a preference to have inspectors in the field and performing inspections unannounced, notifying the Department of product ready for inspection could decrease drive time and enable the Department to inspect more commodities.

Reducing noninspection-related tasks—Currently, inspectors spend some of their time performing noninspection-related tasks. For example, the Department requires its inspectors based in Yuma to collect shipping certificates on a daily basis. These certificates, which contain information on the type and quantity of commodities shipped each day, are used to determine assessment amounts and provide shipment information to the USDA Market News service. While the Department receives \$26,000 annually from the USDA to collect shipping certificates, the Department could potentially save hundreds of hours in inspector time by exploring other means of collecting this information. During calendar year 1999, the Department reported that inspectors spent over 1,000 hours collecting shipment certificates.

Instead of requiring inspectors to collect shipping certificates daily, the Department should develop a process whereby licensees can send this information directly to the Department. The means exist to either fax or e-mail this information to Department offices. This would save up to one to two hours daily of inspection time. While the industry expressed reservations about employing a different process to collect shipping certificates, as some licensed shippers do not always remember to report this information, the Department should work with licensed shippers to develop a workable solution.

Using data to document coverage and focus on violators—Although the Department maintains a variety of information concerning licensees, including licensing, assessment, and violation data, it does not have a way to use this data effectively. For example, the Department knows who is licensed, which licensees are assessed, total assessment amounts, total assessments derived from each commodity, and which licensees have received violations. However, because the Department stores its licensing, assessment, and violation data on three separate and incompatible databases, the Department cannot analyze this important data in any systematic manner.

Finding I

Additionally, the Department does not generate sufficient information on which licensees it has inspected. Specifically, inspectors record their daily activities in a log including information on which licensees and commodities were inspected and the time spent on each inspection. However, although the Department extracts information from the logs to determine how much time inspectors spent inspecting each commodity, it does not summarize the logs to ascertain which licensees have been inspected. Without information concerning which and how often licensees have been inspected, the Department cannot ensure that all licensees receive inspections or that licensees receive the appropriate level of inspection.

The Department does not document all violations.

Finally, the Department does not document all identified violations or use information about violators to make inspection decisions. When a violation is uncovered during a field inspection, it is the Department's policy to have the inspector issue verbal orders designed to bring the grower into compliance instead of issuing a written notice. Therefore, the Department lacks a complete paper trail documenting violations that occur in the growing fields. Even when the Department issues a written violation, primarily through inspections conducted at produce warehouses, it does not use this information to target inspectors' activities. The Department issued 198 written violations during crop year 1999, but did not use this information when deciding where to perform subsequent inspections.

The Department should improve the analysis and management of program data. Better management of this data should allow the Department to determine what licensees and commodities are receiving inspections, which licensees are committing violations, and where it should focus its inspection activities. Accurately documenting all violations issued, whether verbal or written, and using this information to enhance its inspections of licensees who have committed violations, would also help ensure growers that the program has an effect on improving product quality.

Department and CFV Advisory Council should better communicate with program participants—The Department and CFV Advisory Council should take steps to better communicate program information to all program participants. This would include ba-

Finding I

Seventy-six percent of survey respondents were unaware of the “opt-out” provision.

sis information, such as program responsibilities and rights, and information on proposed changes to the program. For example, 76 percent of the industry members who responded to the Auditor General’s survey stated that they were unaware of the opt-out provision and its requirements. Improved communication between participants and the Department could adequately inform participants of this provision and other aspects of the program. Additionally, current and former members of the CFV advisory council agreed that better communication among participants is needed.

Recommendations

1. The Department should improve the management of inspections by:
 - a. Expanding its current planning efforts by implementing a more systematic inspection sampling plan;
 - b. Scheduling and/or centralizing more of its inspections;
 - c. Transferring responsibility for collecting shipping certificates from CFV inspectors to produce shippers by requiring shippers to fax or e-mail the certificates to the Department; and
 - d. Using violation data to implement risk-based inspections.
2. The Department should improve its management and analysis of program data, and use this data to better manage inspection activities and provide customer service by:
 - a. Documenting and analyzing all verbal and written violations;
 - b. Documenting licensees that receive inspections and using this information to ensure that all licensees receive an appropriate level of inspection service; and
 - c. Merging the data from its three databases so that it can analyze this data in a comprehensive and systematic manner.
3. The Department and the CFV Advisory Council should improve communication with program participants, including providing basic program information and proposed changes to the program, as well as information on opting out of the program by:
 - a. Using its current Department newsletter to provide program information to all CFV program licensees who pay assessment fees; and
 - b. Ensuring that Council meeting agendas and decisions are distributed to all CFV licensees who pay assessments.

FINDING II

NON-FOOD PRODUCT QUALITY ASSURANCE PROGRAM NEEDS IMPROVED SAMPLING APPROACH

Although the Non-Food Product Quality Assurance Program often identifies instances of substandard quality in feed, fertilizers, pesticides, or seed, the program has two main problems that keep it from being as effective as possible. First, the Department's procedures do not ensure that samples are taken from a fully representative cross-section of retailers. Second, if past testing indicates a problem with particular products or retailers, the Department's procedures include no way to focus part of the testing on this risk. These problems take on added importance because the Department would like to devote fewer resources to this program. Operating an effective program with even fewer resources heightens the need to make appropriate changes in these procedures.

Program's Sampling and Testing Efforts Identify Problems with Non-Food Products

Under the Non-Food Product Quality Assurance Program, Department inspectors collect samples of feed, fertilizer, pesticide, and seed products for analysis by the State Agricultural Laboratory. The analysis helps ensure that label statements, product guarantees, and applicable laws are adhered to. For example, samples of pool chlorine (a pesticide) are tested to ensure that the product conforms with its labeling, and seeds are tested to ensure that actual germination rates match packaging claims. Department inspectors collect non-food product samples primarily from product retailers located throughout the State. During fiscal year 1999, 11 inspectors worked on this program. In all, they collected nearly 1,300 samples of feed, fertilizer, pesticide, and seed for testing.

Eleven inspectors collected nearly 1,300 samples of feed, fertilizer, pesticide, and seed during fiscal year 1999.

Tests of the sampled products show problems with the quality of some products. For example:

- Twenty-one percent of the fertilizer samples (161 of 770) failed laboratory tests.
- Twenty-eight percent of the feed samples (89 of 317) failed laboratory tests.
- The Department had to take legal action against a manufacturer of pool chemicals because the chemicals' contents did not match labeling guarantees.

Department's Sampling Plans Lack Some Key Components

While the program does identify problems, its sampling plans have limitations that weaken the State's effort to some extent. The plans lack some components that would typically be expected, such as a complete listing of the population to be sampled and a specific list of those locations selected for sampling. They also do not include a way to adjust the work to account for products or retailers that show higher risk. The Department established a committee to address such issues, but the committee was disbanded without finishing the work.

Department lacks systematic method for sampling non-food products—Because the sampling program can test only a small portion of the locations that sell products covered under the program, care must be taken in selecting the retailers to be tested. The quality of some non-food products can vary from retailer to retailer, depending on how the product is stored or how old it is. For example, pool chlorine can degrade if stored improperly, whereas feed, and seed can degrade if left on the shelf too long.

Product quality can vary from retailer to retailer.

Current sampling plans are not adequate to ensure that the testing effort is fully representative. The plans are adequate with regard to specifying which products to sample and which tests to perform. However, they do not contain all the components

needed to ensure that all retailers have an equal chance of being selected in the sample.

A quality sampling plan should include a “sampling frame,” which is a comprehensive list of retailers of the products being sampled, and it should specifically list the locations to be sampled. The current plans specify which cities or towns inspectors should visit, but they leave the selection of specific retailers to the inspectors’ discretion. This approach increases the possibility that retailers could be missed, under-sampled, or over-sampled. Without a comprehensive sampling frame and clear direction for inspectors as to where to go to collect product samples, the Department cannot ensure that it systematically collects samples that are representative of all the feed, fertilizer, pesticide, and seed products sold throughout the State.

Sampling plans do not consider past violations.

Data on risk not incorporated into sampling plans—Although the Department collects data from its sampling efforts, it does not effectively use this data to develop, monitor, or change how the sampling should be done. Further, the Department reports that through product sampling and testing, it has identified areas where violations are minimal and areas with greater violation rates. However, the Department has not adequately factored this information into its sampling plans. Doing so would help the Department make more effective use of inspection resources, because a greater portion of the effort could be focused on products or retailers with a history of problems.

Sampling plan committee did not complete plans—In 1994, the Department established a committee to develop sampling plans that would maximize consumer protection and public health and make efficient use of Department resources. Although the committee met for almost four years, it had not achieved its mission before it stopped meeting in July 1998. While the committee discussed the need for a comprehensive sampling frame, it did not follow through and develop such a frame. The committee also examined the possibility of incorporating risk more fully into sampling plans but decided that it did not have sufficient product violation historical data to do so.

The Department Should Develop and Implement Appropriate Sampling Plans

The Department would like to redirect part of its work in the non-food program into other related work it considers to be of higher priority. Reducing efforts in the non-food program places an even greater importance on resolving the problems with sampling plans. To ensure that the non-food program adequately protects the public and makes efficient and effective use of program resources, the Department should reconvene its sampling committee and develop and implement appropriate sampling plans. The Department and its sampling plan committee should address the following issues within the plans:

Department would like to redirect some resources to another program—The 11 inspectors involved in the non-food program currently divide their time between this program (40 percent) and the Pesticide Compliance and Worker Safety Program (60 percent), which ensures the proper use and application of agricultural pesticides. Because the Department feels that the Pesticide Compliance and Worker Safety Program represents a greater risk to public health, it would like to devote a higher percentage of time to this program. To do so, it must reduce the percentage of inspectors' time currently spent gathering non-food product samples. Appropriate sampling plans would help reduce the amount of time devoted to this program by targeting sampling efforts toward products with high violation rates and ensuring systematic coverage of retail locations for sampling.

The Department should reconvene its sampling plan committee.

- **Sampling Frame**—To provide proper guidance and eliminate the need for inspectors to use their own discretion in choosing sampling locations, the Department should identify the sampling frame for each product type's sampling plan to the extent possible. The Department can begin building lists of retailers carrying regulated non-food products by using its own data on licensees and product registrants as well as the lists it has developed identifying the retailers it has visited annually during the past five years. By identifying a sampling frame, the Department can decide which specific locations inspectors should collect samples from and ensure systematic coverage of the sampling population. The Depart-

ment should also periodically review the sampling frame and add new retailers as necessary to ensure that its lists are current.

- **Risk-Based Component**—To maximize sampling efficiency and effectiveness, the Department’s sampling decisions should be weighted by risk and other factors that would allow it to target specific areas of product noncompliance. For example, if the Department’s analysis of violations shows that a particular product or retailer has a high incidence of violations, it should enhance its sampling of this product or retailer.

Further, the Department should project its sampling plans over a long-term period. Violations and other demographic information on retailers and products can be used to develop a sampling cycle which sets out a plan over a longer time frame, such as three to five years, to further maximize the efficiency and effectiveness of the sampling program. However, the Department should ensure that the plan is flexible enough to incorporate any special needs as they arise. For example, if recent sampling results show a need to expand the testing of a certain product, the sampling plan must be flexible enough to accommodate additional sampling of the product.

Recommendations

1. The Department should develop and implement long-term formal sampling plans for feed, fertilizer, pesticide, and seed products that would allow it to better protect the public from poor-quality non-food products and make efficient and effective use of resources. The Department should also incorporate a sampling frame and risk-based component into these sampling plans.
2. The Department should reconvene its sampling plan committee to guide the development and monitoring of the non-food program sampling plans.

(This Page Intentionally Left Blank)

FINDING III

THE NOGALES OFFICE NEEDS TO STRENGTHEN ITS CASH- PROCESSING CONTROLS

The Department's Federal/State Inspection Service Office in Nogales lacks adequate internal controls to protect the nearly \$2 million it receives in inspection fees each year. As a result, the receipts are susceptible to being lost or stolen. The Office does not segregate the duties involved in handling the monies, immediately endorse checks upon receipt, or reconcile receipts to deposits. By taking steps such as adequately segregating cash-handling responsibilities and immediately endorsing receipts, the Office can help prevent the loss or theft of the monies it receives.

Office Fails to Sufficiently Protect Monies Collected

The Nogales Office lacks adequate internal controls to protect the monies it receives from providing required and voluntary federal/state inspections of produce entering the United States from Mexico. Approximately 75 percent of the nation's winter produce enters the U.S. through Nogales and during crop year 1999, Department inspectors conducted over 47,000 inspections, generating about \$2 million in inspection fees. The Office is responsible for all of the billing, collecting, and depositing of these fees based on the information obtained by inspectors during inspections. However, the Office employs several inappropriate procedures in its cash-handling process, including lack of segregation of cash-handling duties, not immediately endorsing checks upon receipt, and not reconciling the cash-receipt ledger to deposits.

The Nogales Office collects almost \$2 million annually in inspection fees.

■ **Cash-handling procedures not properly segregated—**

The Nogales Office does not adequately segregate cash-handling responsibilities, though it has enough staff to do so. Currently, the Department calculates fees and bills produce distributors every ten days based on services rendered, as reflected on inspection certificates issued by inspectors. However, payments are remitted to the same person who calculated the bill. This same person also endorses the check, posts the payment, places the check in the safe, and completes the deposit slip. While the Department recently instituted changes to the Office's cash-handling procedures in an effort to employ adequate segregation of duties, too many duties remain the responsibility of one person without any compensating controls or supervisory review.

To decrease the chance of theft, fraud, or loss, the Office needs to appropriately segregate cash-handling responsibilities. Specifically, the billing function should be separated from the cash collections. No single individual should be able to authorize a bill, record the collection of fees in the accounting records, and maintain custody of the payments resulting from the transaction. While one employee can prepare billings, two individuals, independent of the billing function, should be assigned to process payments. The first employee should receive and open the mail, immediately endorse the check, enter the check into the cash-receipt ledger, place the check in the safe, and forward the payment documentation to the second employee, who will enter the payment into the computer system. Someone independent of recording the payments should be responsible for depositing the cash and checks.

The Office does not adequately segregate cash-handling duties, immediately endorse checks, or reconcile receipts to deposits.

■ **Checks not endorsed immediately—**The Office does not safeguard its checks through restrictive endorsement until midway into its process. Restrictively endorsing a check helps prevent someone other than the Office from depositing the payments. However, the checks received by the Office are currently handled by at least two employees prior to endorsement. When the mail is received, the first employee opens and sorts all the mail and forwards all checks to a second individual who records the payment information in a cash-receipts ledger. The checks are then returned to the first

employee for endorsement. Prior to this point, the checks are unsecured and in an open office area through which numerous personnel pass.

The Office should immediately endorse checks.

To protect these payments, the Office should immediately endorse checks, enter them into the cash-receipts ledger, and securely store them during processing. Checks should be immediately endorsed upon receipt and stored in the Office's safe, especially since the Office does not make daily deposits. The Office should prepare a receipt noting the payment amount to accompany the associated documentation. Once staff verifies that the payment amount and documentation are complete and accurate, it can then deposit these monies. These procedures would better safeguard receipts and minimize employee access to these receipts during processing.

- **Cash-receipts ledger not reconciled to deposits**—The Office also fails to reconcile deposit receipts with the cash-receipts ledger. Specifically, Office staff enters data about checks received into a ledger but never reconciles this information with deposits to ensure that the checks received are deposited. Therefore, once the Office has finished processing payments, including depositing those payments, someone independent of the process, such as a supervisor, should regularly reconcile the cash-receipts ledger to the deposit records to ensure that all payments received by the Office are deposited.

Department Needs to Develop a Policy and Procedures Manual

While the Office institutes changes to its cash-handling procedures, the Department should develop and implement written policies and procedures for handling cash and cash-like receipts to ensure appropriate cash-handling activities are consistently performed by Office staff. These policies and procedures should incorporate the recommended changes to the Office's cash-handling process, and define employee responsibilities for each step in the process. Additionally, to refine and update its cash-

handling process, the Department should periodically request a procedural review from the State's General Accounting Office. Such a review analyzes an organization's cash-handling process and looks for internal control weaknesses. By regularly reviewing its internal controls, the Department can ensure that its procedures effectively safeguard state and federal monies.

Recommendations

1. The Department should establish and maintain the following processes and procedures to better safeguard state monies for the Nogales Office of its Federal/State Inspection Service, including processes and procedures for:
 - Adequately segregating cash-handling responsibilities;
 - Immediately endorsing all checks upon receipt; and
 - Regularly reconciling monies received to deposits.
2. The Department should develop policies and procedures for handling cash and cash-like receipts, including defining employee responsibilities for each step in the cash-handling process.
3. The Department should periodically request a procedural review from the State's General Accounting Office to ensure it adheres to established policies and procedures for the Nogales Office.

OTHER PERTINENT INFORMATION

During the audit and in response to legislative inquiries, other pertinent information was gathered regarding the Department of Agriculture's current efforts to regulate exempt slaughtering and processing facilities.

Regulating the Exempt Meat Industry

As part of its Food Safety and Quality Assurance program, the Department regulates slaughtering and processing facilities that produce meat for intrastate sale. The Department also regulates facilities, known as exempt facilities, that slaughter livestock and process meat for an animal owner's personal use. For exempt facilities, state regulation mirrors federal requirements in calling for fewer and more narrowly scoped inspections than for facilities that produce meat for sale. Arizona's level of regulation of exempt facilities is similar to regulation in other Western states, and the Department has received very few complaints regarding its regulation of the exempt meat industry.

The Department regulates facilities that slaughter and process meat for an animal owner's use.

Exempt slaughtering and processing facilities—Exempt slaughtering and meat-processing facilities slaughter livestock and process meat for the sole use of an animal's owner. Because the meat processed at exempt facilities is not for sale and does not enter the public food chain, this industry is exempt from some of the USDA and state inspection criteria applicable to facilities slaughtering and processing meat for public consumption. Within the exempt industry, there are two types of slaughtering facilities. Specifically,

- **Non-Mobile Exempt Slaughtering Facilities**—Non-mobile facilities slaughter livestock in a stationary building. Non-mobile exempt slaughtering facilities often also provide meat-processing services. There are currently 29 non-mobile exempt slaughtering and/or processing facilities in Arizona.

- **Mobile Exempt Slaughtering Units**—Mobile slaughtering units use mobile structures to slaughter livestock on an animal owner’s property. Because mobile units are for slaughtering only, the mobile slaughterer can transport the carcass to an exempt processor for processing.

Exempt meat processors are prohibited by law from selling any of the meat or meat by-products they process for an animal’s owner. When livestock are processed by exempt facilities, all associated meat and meat by-products must be returned to the animal’s owner and labeled “not for sale.” If the owner does not want all the meat or meat by-products, the processing facility must take steps to render the meat unfit for consumption and dispose of it.

Exempt facilities represent only a small part of the Department’s meat inspection program. The majority of the Department’s meat inspection resources are devoted to inspecting facilities, commonly referred to as official facilities, that slaughter livestock and process meat for intrastate sale and public consumption. Currently, there are approximately 70 official slaughtering and/or processing facilities in Arizona.

Regulation of exempt and official facilities—To regulate both official and exempt facilities, Arizona has statutorily adopted meat inspection requirements that are equal to the USDA’s meat inspection regulations. The State’s meat inspection program operates under various cooperative agreements with the USDA and the requirements of Arizona’s program mirror or are equal to the meat inspection regulations imposed by the USDA. According to the Federal Meat Inspection Act, if states do not maintain a meat inspection program that is equal to the USDA’s requirements, the USDA must perform all meat inspections in that state. To enforce meat inspection requirements in Arizona, the Department licenses official slaughtering and processing facilities, and inspectors visit official facilities each day that these facilities are slaughtering livestock or processing meat. When inspecting official facilities, Department inspectors focus on both the condition of the animals and associated meat as well as the condition and sanitation of the facilities.

The State’s program operates under agreements with the USDA.

Other Pertinent Information

In contrast, while non-mobile exempt facilities are licensed, state regulations require only that these facilities be inspected at least twice a year. These inspections focus on the sanitary conditions of the facilities, and the condition of the animals, but not on the associated meat. The Department will conduct more than two inspections each year based on an exempt facility's violation history. If problems are identified during an inspection, the Department will conduct follow-up inspections to ensure that all problems are resolved. Further, the Department licenses mobile slaughtering facilities, but neither state nor federal law require mobile facilities to be inspected.

The Department's regulation of exempt facilities is in accordance with USDA standards.

This level of regulation is similar to other Western states that regulate the exempt meat industry. During the course of the audit, auditors contacted ten Western states with state meat inspection programs similar to Arizona's.¹ Eight of the ten states contacted believe that the current level of regulation sufficiently monitors the exempt meat industry. Only Montana and Idaho expressed dissatisfaction with their current level of regulation, believing that their own state rules need to be updated and strengthened.

The Department receives few complaints on exempts—While the level of regulation applied to the exempt meat industry is considerably less than the Department's regulation of the official meat industry, the Department reports that it has received very few complaints regarding non-mobile or mobile exempt facilities. Although the Department does not track the number of complaints it receives regarding exempt facilities, the Department reports that it has had to take action against only three exempt facilities during the past three years (1997 through 1999). Two of these actions involved facilities that did not meet mandated sanitation requirements and these facilities entered into consent agreements with the Department to remedy the sanitation deficiencies. The third action involved an exempt facility that illegally offered meat for sale and the Department fined the operator of this facility. The Department has not found any further problems with exempt facilities for the past 12 months.

¹ The following Western states were contacted because they have an exempt industry regulated by a state meat inspection program: California, Colorado, Idaho, Kansas, Montana, Oklahoma, Oregon, Utah, Washington, and Wyoming.

(This Page Intentionally Left Blank)

Agency Response

(This Page Intentionally Left Blank)

June 19, 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 Food Safety and Quality Assurance and Non-Food Products Quality Assurance Programs. The ADA agrees in general with the findings and recommendations of the audit team.

The ADA appreciates that the audit team recognized the numerous improvements to these programs presently underway. Further, we are pleased to note that the Department has begun implementing corrective action to many of the issues documented in your report.

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". The signature is fluid and cursive, with the first name being the most prominent.

Sheldon R. Jones
Director

SRJ:NW:jg

Enclosure

AUDITOR GENERAL'S RECOMMENDATIONS AGENCY RESPONSE

Overview:

The Arizona Department of Agriculture (ADA) agrees 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 agriculture industry and the consuming public, 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.

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. 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 Food Safety and Quality Assurance Program is charged with ensuring that the public food supply meets established standards for quality and safety. To assist the Department in meeting its statutory mandates, this program is managed in two subprograms: Animal Products Food Safety and Quality Inspection, and the Fresh Produce Standardization and Inspection.

The Animal Products Food Safety and Quality Inspection subprogram is designed to help protect the public health and safety from microbiological, chemical and physical food hazards or substandard quality resulting from the processing and packaging of meat, poultry, ratite, milk and eggs.

The Fresh Produce Standardization and Inspection subprogram is designed to inspect the quality of fresh produce distributed in Arizona in accordance with standards established by either the State of Arizona or the United States Department of Agriculture. State quality inspections are industry-funded and aid the Arizona citrus, fruit, vegetable, and nut industries in complying with quality standards. The purpose of state inspections is to ensure that any produce or nuts marketed within or exported from Arizona conform to state quality standards established for each commodity. Standards are established to encompass several areas including quality, maturity, processing, labeling, storage, handling and refrigeration of products.

Additionally, under a cooperative agreement, United States Department of Agriculture (USDA) produce inspections are given by federal/state inspectors at the shipping point, the international port-of-entry, or the terminal market. USDA grade inspections are fee-based and given at the request of an industry desiring either to market their produce under USDA quality grade standards, or to fulfill requirements for United State imports, exports, marketing orders, or military shipments. Federal/State inspectors also inspect watermelons and other identified produce entering Arizona from Mexico according to State quality standards.

The Non-Food Product Quality Assurance program serves to ensure public confidence in the quality of feed, fertilizer, pesticide, forage, and seed products. Many do not realize that pesticides include, but are not limited to traditional crop protection agents, swimming pool chemicals, pet pest treatments and household cleaners. Regulation of these various industries is accomplished through two basic functions. First, regulatory processes are undertaken to register pesticides and fertilizers and to issue licenses to fee, fertilizer, forage and seed dealers and labelers. Secondly, enforcement activities are conducted by inspectors who confirm product registrations and dealer licensing, and who regularly sample these products to ensure that label statements, product guarantees, and applicable laws are adhered to. Inspectors also, of course, respond to individual consumer complaints regarding product quality concerns.

As indicated in the Auditor General's report, certain characteristics of the programs contribute to duplication of effort and resources on the part of both the Department, as well as the public it serves. 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 growing agriculture industry and the public at large.

Finding I: *Department Could Take Steps to Address Industry Concerns Regarding the CFV Standardization Program.*

Recommendation: The Department should improve the management of inspections by:

- A. Expanding its current planning efforts by implementing a more systematic inspection sampling plan;
- B. Scheduling and/or centralizing more of its inspections;
- C. Transferring responsibility for collecting shipping certificates from CFV inspectors to produce shippers by requiring shippers to fax or e-mail the certificates to the Department; and
- D. Using violation data to implement risk-based inspections.

1A. Agency Response: The finding of the Auditor General is Agreed to and the audit recommendation will be implemented.

Agency Explanation: The Arizona Department of Agriculture recognizes the value of implementing each component of this recommendation. The Department intends to implement a more systematic inspection plan by increasing the level of supervision of daily field inspections to ensure more efficient and systematic plans for inspecting products are actualized.

1B. Agency Response: **The finding of the Auditor General is agreed to and the finding will be implemented.**

Agency Explanation: Where possible, the Department will encourage the CFV program to conduct more centralized inspections. We recognize the value, both to the industry and to the State, for such inspections to take place at the point of packing. Whether the product is being packed in a field or in a packing shed, the Department appreciates that there exists a higher likelihood that any violations discovered could be corrected before the product is widely distributed. Therefore, while the Department intends to centralize or schedule its inspections, it is willing to cooperate with the industry to continue to offer inspections at the point of packing.

1C. Agency Response: **The finding of the Auditor General is agreed to and the finding will be implemented.**

Agency Explanation:

Transferring responsibility for collecting shipping certificates from CFV Standardization inspectors to the shippers has already begun on a voluntary basis with thirty-two of our shippers participating. By the Fall of 2000, we would like to require that all central and eastern shippers send us directly their shipment certificates thereby reducing the amount of time a State inspector spends managing paperwork during an inspection. This recommendation, however, may not have taken into consideration the contract the Department has with the United States Department of Agriculture's Market News program. Through this contract the Department serves as the collection service of the shipping certificates for the USDA in Arizona's western region (Yuma County). While we are fairly confident such a requirement will be equally beneficial for our inspectors in western Arizona, it will be necessary for the Department to review the terms of our contract and to meet with the USDA before we commit to changing the way those shipping certificates are collected.

As the recommendation suggests, the Department is amenable to accepting delivery of these shipping certificates from the shippers through most mediums including facsimile, e-mail or standard mail delivery.

1D. Agency Response:

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

Agency Explanation:

The CFV Standardization program will begin immediately to use violation data collected to implement risk-based inspections that adhere to the sampling and inspection protocols of the Department.

Recommendation 2:

The Department should improve its management and analysis of program data, and use this data to better manage inspection activities and provide customer service by:

- A. Documenting and analyzing all verbal and written violations;**
- B. Documenting licensees that receive inspections and using this information to ensure that all licensees receive an appropriate level of inspection service; and**
- C. Merging the data from its three databases so that it can analyze this data in a comprehensive and systematic manner.**

2A. Agency Response:

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

Agency Explanation:

Based upon the finding of the auditor general and the recommendation of this report, the Department has structured a system for documenting licensees, verbal and written violations, and the level of inspection being provided to those licensees. Beginning July 1, 2000, the CFV Standardization program will begin documenting and analyzing verbal violations in addition to our presently tracked written violations by adjusting our inspectors' daily field service reports. This will indicate which shippers or growers were brought into compliance by verbal means and with what frequency.

As has been stated in our response to previous audit reports, the Arizona Department of Agriculture believes its responsibility to provide unbiased compliance assistance to a willing industry is every bit as important as serving as a strong enforcement agency. To this end, CFV Standardization inspectors are more than willing to work with growers and shippers to help bring their product into compliance before having to issue a formal written violation.

2B. Agency Response:

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

While the CFV Standardization program utilizes its daily field service activity reports to track the number of inspections the State's licensees receive, the program is committed to utilize its existing daily field service reports

to track and document more specifically the number of inspections licensees receive. The Department will encourage the program to continue to refine these reports to ensure that all licensees receive an appropriate level of inspection service.

The inspections licensees receive will be based upon the ratio of commodities grown in Arizona.

2C. Agency Response:

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

Recommendation 3:

The Department and the CFV Advisory Council should improve communication with program participants, including providing basic program information and proposed changes to the program, as well as information on opting out of the program by:

- A. Using its current Department newsletter to provide program information to all CFV program licensees who pay assessment fees, and**
- B. Ensuring that Council meeting agendas and decisions are distributed to all licensees who pay assessments.**

3A & 3B. Agency Response:The finding of the Auditor General is agreed to but a different method of dealing with the finding will be implemented.

While the Department concedes that it has an opportunity to improve the level of communication between itself and the regulated industry, it will implement alternative and more cost-effective methods to address the finding. The CFV program, like all Department programs, abides by requirements of public meeting laws by advertising Advisory Council meetings. Additionally, whenever a rule change is proposed or implemented, the program, through the Department's rules specialist, solicits industry comments and feedback. Additionally, its important to note that the Advisory Council, itself, is a tool to make the industry aware of program activities as each member is selected to represent the concerns of a particular segment of the industry.

Therefore, while the Department concedes it may have an opportunity to improve its level of communication with the industry, it will implement alternative and more cost effective methods of dealing with the finding including incorporating CFV updates in the existing Department newsletter and posting meetings on the Department's website.

Finding II:

Non-Food Product Quality Assurance Program Needs Improved Sampling Approach

Recommendation 1:

The Department should develop and implement long-term formal sampling plans for feed, fertilizer, pesticide, and seed products that would allow it to better protect the public from poor-quality non-food products and make efficient and effective use of resources. The Department should also incorporate a sampling frame and risk-based component into these sampling plans.

Agency Response:

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

Agency Explanation:

The Department agrees to implement a long-term sampling plan for the non-food commodities. It is also agreed that a risk based component be added to the plan. Contrary to the report however, the Department believes inspector discretion is absolutely warranted and will continue to play a role in sampling.

As was indicated in conversations with Department staff, the Program does not have a mechanism to obtain information on the retail outlets selling these materials. The Department is not able to obtain information such as the number of retail outlets in Arizona, their locations and what regulated materials are sold at such facilities.

State law does not require these retail outlets to obtain a license to operate in Arizona. The Department is aware, also, that a retail center's location, inventory, and even ownership can change on a frequent basis. A database can be generated out of those establishments that have previously been inspected; however, the materials that they sell can not be as easily tracked. It would be unreasonable to try and track products other than those found to be in violation. The only stores that will be consistently providing these products will be those that make up major conglomerates such as Home Depot, Wal-Mart, etc.

The Department recognized these deficiencies and less than a year ago revised the rules covering feeds, fertilizers and pesticides. A requirement now exists in the fertilizer rule that all specialty products labels are provided to the program. In feed, all persons that will be distributing

commercial feed in the state must now provide us with a copy of the label. These provisions allow the department to gather information on the products that are available for sale and for sampling purposes.

As the Department has no statutory authority to require a product listing, the Department is currently requesting that the fertilizer licensees provide us with a listing of all fertilizers by name and grade for inclusion in its sampling planning. A similar request will be made for the seed labelers with license renewals. With this information, the Program will have a fair estimate of the materials that are available for sale within the State.

Recommendation 2:

The Department should reconvene its sampling plan committee to guide the development and monitoring of the non-food program sampling plans.

Agency Response:

The finding of the Auditor General is agreed to and the audit recommendation has already been implemented.

Agency Explanation:

The sampling committee has already been reconvened and has met as a whole. Now, it will start to meet in subcommittees to deal with each commodity.

The sampling committee is made up of core professionals. These members are: two managers from the State Agricultural Laboratory, two managers from ESD, and Mr. Will Sherman, State Statistician for the United States Department of Agriculture's Agricultural Statistics Service. The committee is then broken down categorically with someone from the field with considerable knowledge in a particular sector is added to the committee. A representative from the Structural Pest Control Commission will also sit on the pesticide committee.

Finding III:

The Nogales Office Needs to Strengthen Its Cash-Processing Controls

Recommendation:

The Department should establish and maintain the following processes and procedures to better safeguard state monies for the Nogales Office of its Federal/State Inspection Service, including processes and procedures for:

- A. Adequately segregating cash-handling responsibilities
- B. Immediately endorsing all checks upon receipt; and
- C. Regularly reconciling monies received to deposits.

Agency Response:

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

Recommendation 2:

The Department should develop policies and procedures for handling cash and cash-like receipts, including defining employee responsibilities for each step in the cash-handling process.

Agency Response:

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

Recommendation 3:

The Department should periodically request a procedural review from the State's General Accounting Office to ensure it adheres to established policies and procedures for the Nogales Office.

Agency Response:

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

Other Performance Audit Reports Issued Within the Last 12 Months

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	00-5	Department of Agriculture— Licensing Functions
99-16	Department of Building and Fire Safety	00-6	Board of Medical Student Loans
99-17	Department of Health Services’ Tobacco Education and Prevention Program	00-7	Department of Public Safety— Aviation Section
99-18	Department of Health Services— Bureau of Epidemiology and Disease Control Services	00-8	Department of Agriculture— Animal Disease, Ownership and Welfare Protection Program
99-19	Department of Health Services— Sunset Factors	00-9	Arizona Naturopathic Physicians Board of Medical Examiners

Future Performance Audit Reports

Department of Tourism

Department of Public Safety—
Crime Lab