

Douglas A. Ducey
Governor



Mark W. Killian
Director

Arizona Department of Agriculture

1688 W. Adams Street, Phoenix, Arizona 85007
(602) 542-4373

April 6, 2020

Lindsey Perry
Auditor General
2910 N 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

I have reviewed the revised preliminary report draft of the performance audit of the Arizona Department of Agriculture – State Agricultural Laboratory. Enclosed, please find the Department's formal response.

Respectfully,

Mark Killian
Director

MK/dm

Finding 1: Department does not track costs of specific Lab services, limiting its ability to appropriately allocate costs and set fees

Recommendation 1: The Department should develop a formal process for tracking and determining how to allocate Lab costs, including:

Recommendation 1a: Tracking all costs associated with Lab testing services, including direct and indirect costs, ensuring that its testing services are as efficient as possible, and comparing the cost of its Lab testing services with its various funding sources, including fees, to accurately determine the extent to which these various funding sources cover the costs of the associated testing services.

Department Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Prior to FY2009, the Lab did collect, store and analyze data to determine unit cost per test. However, during the Great Recession, the laboratory was reduced from 27 staff to 12 staff. This included the elimination of all administrative support staff (3). One function of the support staff was to collect and enter the data necessary to perform cost-based analysis of the individual tests. Without such support staff, it is not feasible to begin collecting, storing and analyzing all the necessary data to enable full cost accounting to resume. The Department is committed to seeking the additional administrative support necessary to fully implement this recommendation.

The Lab has already begun switching its old task tracking system from its labor-intensive, internally developed system to a new online, cloud-based system which should allow for improved time accounting although it will increase the burden to existing staff and has an approximately \$500/year licensing fee. The Lab is also working with persons at the State Procurement Office to determine if the new statewide purchasing software platform (APP) can be utilized in a way which will allow itemized reporting on a sub-function level. If possible, this may aide in determining a portion of the operating costs. Whether this can be achieved without a substantial personnel time expenditure will also be examined.

Recommendation 1b: Determining who benefits from Lab testing services. For example, it should determine whether a specific testing service benefits the public or a specific industry.

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

Response explanation: The Department believes it knows who benefits from the Lab testing but will reconfirm.

Recommendation 1c: In conjunction with the previous steps, working with other Department divisions, the Legislature, and industry stakeholders to determine whether changes, if any, should be made to the Lab's funding structure, including any changes to its fees, and take appropriate action based on these determinations.

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

Response explanation: The Department agrees to implement this recommendation; however, the cost analysis is contingent upon the Department's success in seeking the additional administrative support necessary to fully implement the first recommendation.