REPORT OF

THE

STATE AUDITOR

Department of Agriculture

Performance Audit
February 2001

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February 27, 2001

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Department of Agriculture. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Agriculture.

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Authority, Purpose, and Scope

This performance audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted governmental auditing standards. Our audit procedures included reviewing documentation, interviewing Department staff and members of State Agricultural Commission, analyzing data, and interviewing staff in other state agriculture departments. Audit work was conducted between June and December 2000.

The purpose of this audit was to review the efficiency and effectiveness of the Department's operations. As part of our audit we also conducted procedures to determine the implementation status of selected recommendations from our 1994 performance audit of the Department. Our status report is found in Chapter 5. We gratefully acknowledge the assistance and cooperation of staff at the Department of Agriculture and members of the State Agricultural Commission in completing this audit. The following summary provides highlights of the comments, recommendations, and agency responses contained in the report.

Overview

The Department of Agriculture provides over 300 different regulatory, inspection, marketing, consumer protection, and miscellaneous agricultural services across the State. The Department is overseen by a nine-member State Agricultural Commission and managed by the Commissioner of Agriculture. Organizationally, the Department is composed of the Commissioner's Office and seven divisions. They include the Divisions of Animal Industry, Brand Inspection, Inspection and Consumer Services, Markets, Plant Industry, Soil Conservation, and the Colorado State Fair. The operations of the State Fair and the Division of Soil Conservation were excluded from the scope of our audit.

In Fiscal Year 2000 the Department spent approximately $26.3 million and employed about 265 FTE. About two-thirds of the Department's total funding comes from cash sources. General funding accounts for most of the remaining third of the Department's funding; with federal funding accounting for the remainder (i.e., less than 3 percent).

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

The Department's Inspection Programs Lack Key Components

The Department of Agriculture is primarily a regulatory agency. Its regulatory responsibilities include licensing businesses and individuals, performing inspections, and investigating complaints. As part of our audit we reviewed selected inspection approaches and activities within three of the Department's divisions (i.e., Plant Industry, Inspection and Consumer Services, and Animal Industry). We also reviewed complaint investigation procedures departmentwide.

Overall, the Department needs to improve its inspection approaches and activities in several ways. For example, Department managers have not established annual, statewide goals for some inspection activities. We also observed that certain programs need to prioritize their numerous inspection responsibilities in order to ensure that more important activities take precedence over those of lesser concern (e.g., activities aimed at safeguarding human health versus activities aimed at protecting consumers). In addition, we found that fully computerizing inspection-related data collection, reporting, and analysis tasks would create efficiencies within the Department, as well as improve customer service. Our audit work included developing a conceptual approach ("best practices") to assist the Department in making improvements to the efficiency, effectiveness, and thoroughness of its inspection activities. **As such, we are recommending that the Department require each of its inspection programs to incorporate the best practices approach outlined in the audit report. This should include, but not be limited to, the following: setting annual, statewide goals for each inspection type; prioritizing all inspection responsibilities using reasonable criteria; assigning inspection workload that is both achievable and territory-specific; periodically monitoring inspector workload to help gauge performance and the achievement of statewide goals; and computerizing all data collection, reporting, and analysis tasks.**

We also found that many of the Department's inspection programs could benefit from adopting a risk-based inspection approach. Risk-based inspections are a good way to save resources while still providing oversight in the areas that need it most. Currently, only two programs are fully utilizing a standardized, risk-based inspection approach (e.g., the farm products and meat processing facility inspection programs). The Department needs to undertake several steps in developing a sound risk-based inspection approach for its programs, including the following: developing reasonable risk criteria, assigning initial risk scores to all regulated entities, determining how risk scores will drive future inspection activity, and developing a methodology for updating risk scores as needed (among other tasks). **The Department should identify all programs that would benefit from using a risk-based approach to inspections, redirect resources as needed, and then fully implement a risk-based approach where it is warranted.**

Complaint-handling is another area where the Department needs to make substantial improvements. The Department routinely receives complaints from citizens on a number of subjects (e.g., misapplication of pesticides, reports of suspected animal cruelty). Responding to citizen complaints and concerns is an important responsibility for any governmental agency. Further, complaint-related data can be very helpful to a regulatory agency like the Department in terms of helping it focus inspection activities. We found that, among other problems, the Department lacks formal complaint-handling policies and procedures and does not have systematic monitoring mechanisms to ensure complaints are prioritized and resolved in a timely manner. We also observed that many programs have poor or nonexistent record keeping requirements for their complaint-handling processes. **To alleviate these problems, the Department should develop formal, departmentwide complaint-handling policies and procedures which address several areas, including: standardized record keeping expectations, logging/monitoring requirements, and procedures for routinely communicating with individuals who lodge a complaint.**

A Fiscal Crisis May Be Emerging

The Department receives its operating funding from primarily cash and general fund sources. Specifically, excluding State Fair operations, cash and general funds accounted for approximately 97 percent of the total funding the Department spent during Fiscal Years 1998-2000. During this same period, overall spending at the Department increased about 10.7 percent; while spending relative to cash sources increased at an even higher rate (11.4 percent). Although cash funding is very important to the Department, managing this funding source is not simple. Most of the Department's cash funding comes from charging fees for licenses, registrations, and inspections. In all, there are about 55 different fees now in effect at the Department. Further, a majority of these fees are specifically set in statute (29 of 55 existing fees, or 53 percent). Moreover, many fees are now set at their legal maximum (22 of 29 fees, or 76 percent) and most of these fees have been set at this level for at least ten years (17 of 22 fees, or 77 percent).

During the audit we noted that collections of fee-related revenues have been increasing at a rate that is markedly lower (7.7 percent) than either the Department’s overall spending or its cash-related spending. In general, we believe these trends may indicate that a fiscal crisis is emerging at the Department. Specifically, unless the Department takes action to begin raising more revenue from cash sources (i.e., fees), more general tax money will be needed to pay for its operations, or service levels will suffer. We believe that the Department's current financial situation has resulted from inadequate fiscal management. For example, the Department has not done a good job of identifying the operating costs for programs that rely on revenue from fees. We also observed that only a few of the Department's fully cash-funded programs regularly and systematically analyze their revenues and fee structures. In addition, we noted that some of the Department's more recent fee modification decisions have been based on inadequate or incomplete data. **To ensure that the Department's current financial situation does not become a fiscal crisis, we are recommending that the Department take a number of actions. For example, the Department should identify the total operating costs for each of its programs that are partially or wholly supported by fees, review the funding sources associated with these programs to identify problem areas, work with the General Assembly to establish objectives for the level of general fund support that will be expected for certain programs, and develop a more systematic process for collecting the information needed to make fee modification decisions.**

Use of Information Technology Needs Improvement

Until recently the Department has taken a relatively conservative stance on acquiring and using technology to support its operations. In Fiscal Year 1997, however, the Department began a large information technology (IT) venture known as the Enterprise-Wide Systems Integration Project. The goal of this project is to integrate all of the Department's licensing, registration, and reporting subsystems and databases to form one consolidated system which will be known as the Colorado Department of Agriculture Information System (CDAIS). Given the Department's progress to date, we believe that CDAIS implementation will be finished sometime in Fiscal Year 2004 at a cost of about $3.4 million.

The underlying premise of CDAIS—i.e., integration of the Department's licensing, registration, and reporting subsystems—is a worthy one. Currently, the Department uses an inefficient hodgepodge of stand-alone systems and databases to support its daily operations. Integrating these systems could markedly improve both operational efficiency and customer service at the Department. Because of the cost associated with an IT project of CDAIS' scale, however, it is imperative for the Department to proceed carefully as it works toward full implementation. As we reviewed the Department's implementation efforts to date, we noted several areas for improvement. Paying timely attention to each of these issues will help the Department ensure that the dollars allocated to CDAIS are well-spent. **For example, the Department needs to improve overall planning and management of its major IT projects, including CDAIS. We also found that the Department needs to correct problems in some CDAIS subsystems that have already been completed, enhance user input regarding the design of system components which are still in the planning phase, and improve its processes for monitoring the work of IT contractors.**

Several Programs Need Modernization or Other Structural Changes

Throughout our audit we observed that four of the Department's programs (i.e., Brand Inspection, Rodent Control, Predatory Animal Control, and Mandatory Fruit and Vegetable Inspection) were in need of considerable changes in terms of their program structures and/or funding arrangements. The changes that are needed in two of these programs are discussed in more detail below:

- **Brand Inspection:** The primary mission of the Brand Inspection Program is to ensure the proper ownership of cattle, horses, and other livestock. In Fiscal Year 2000 the Brand Inspection Program spent approximately $3 million (all cash funding), employed about 63 FTE including 55 brand inspectors, and conducted approximately 5.2 million brand inspections.

  Brand inspection has a long history in the State; beginning in the 1860s when Colorado was still a territory. In fact, many of the day-to-day activities of the Brand Inspection Program have changed little since program inception even in the face of major technological advancements. This fact, as well as several others, led us to conclude that it is time to reassess several aspects of this program's operations. For example, our audit work showed that the scope of Colorado's Brand Inspection Program is generally more extensive than the scope of programs found in surrounding states. Further, at 55 FTE, Colorado is second only to one other surrounding state (Wyoming) in terms of the number of brand inspectors it employs. We also observed that Colorado's Brand Inspection Program needs to vastly improve its use of technology in carrying out its daily responsibilities. Overall, we believe that the Department needs to consider a variety of organizational changes and options for service delivery within this program, ranging from eliminating brand inspection as a governmental function altogether to increasing the use of existing "self-inspection" programs. **As a result of these issues and others, we are recommending that the Department work with the General Assembly and the State Board of Stock Inspection to review the scope and operations of the Brand Inspection Program, with the objective of eliminating responsibilities that no longer add value and modernizing those that are still deemed beneficial.**

- **Mandatory Fruit and Vegetable Inspection:** The Division of Inspection and Consumer Services (ICS) conducts inspections of fruit, vegetables, and other agricultural products to provide evidence of quality and condition. Statutes require the inspection of one commodity (potatoes); all other inspections are performed on a voluntary (i.e., nonmandatory) basis. Mandatory potato inspections currently account for about 96 percent of the Division's total fruit and vegetable inspection workload. Fiscal Year 2000 expenditures for both the mandatory and nonmandatory fruit and vegetable inspection programs were approximately $1.9 million.

  In our 1994 performance audit we recommended that the Department establish a fee structure for its fruit and vegetable inspection program that would generate revenue sufficient to cover all program costs. In 1994 mandatory inspection fees were too low to cover all direct and indirect program costs. On the other hand, fees for nonmandatory inspections were set at a level that allowed the Department to recoup all its direct and indirect program costs. This situation still exists today due to the fact that the mandatory inspection program continues to receive two types of statutory General Fund subsidies (i.e., a $200,000 annual operating appropriation and a second subsidy in the form of a cap on the program's indirect costs.). We believe these statutory operating subsidies were originally intended to serve as an economic development tool for Colorado's nascent potato growing industry. As we stated in 1994 and will reiterate now, Colorado's thriving potato industry no longer appears to need this type of economic assistance. Discontinuing these subsidies would free up approximately $360,000 in general funds for other uses, as well as eliminate equity concerns with regard to the differential fee structures now in place for the mandatory and nonmandatory inspection programs. **Thus, we are recommending that the Department work with the General Assembly to repeal statutes which shift the cost of fruit and vegetable inspections away**

from funding sources besides direct user fees (i.e., eliminate the statutory indirect cost cap and $200,000 annual general fund subsidy for mandatory potato inspections).

Several Recommendations From the 1994 Performance Audit of the Department Remain Unaddressed

As part of our current audit we reviewed the implementation status of selected recommendations made in our August 1994 performance audit of the Department. We reviewed the status of 16 of the 23 recommendations contained in the 1994 report. Of the recommendations we selected for review, the Department agreed to implement, at least in part, all but one recommendation.

Overall we found that the Department has fully implemented only 2 of the 16 recommendations we selected for our follow-up review (13 percent). Nine additional recommendations are partially implemented (56 percent) and five recommendations remain not implemented (31 percent). Given the Department's general agreement with our original recommendations and the fact that over six years have passed since this audit was released, we anticipated that more recommendations would be fully implemented. Instead, we found that the Department needs to initiate a number of actions if it is to fully implement the recommendations which still remain unaddressed. These actions are outlined in more detail in Chapter 5. **We are also recommending that the Department institute more formalized oversight and accountability mechanisms to ensure that future audit recommendations are addressed in a more complete and timely manner.**

Summary of Agency Responses to the Recommendations:

The Department of Agriculture either fully or partially agreed with 19 of our 21 recommendations. The Recommendation Locator (found on pages 7-9) provides an overview of the Department's responses to the recommendations and its estimated implementation schedule.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Agriculture

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	22	Improve the efficiency and effectiveness of inspection activities by requiring programs to incorporate best practices into their inspection approaches.	Agree	December 2002
2	26	Identify all programs that would benefit from using a risk-based approach to inspections, redirect resources as needed, and then fully implement a risk-based approach where it is warranted.	Agree	January 1, 2002
3	27	Work with the General Assembly to repeal statutory provisions that require annual inspections of all nursery stock kept or offered for sale.	Agree	December 2002
4	31	Adopt and adhere to a risk-based approach for inspecting wild game processing facilities.	Partially Agree	July 2002
5	33	Improve customer service by developing formal, departmentwide complaint-handling policies and procedures.	Agree	December 31, 2001
6	35	Perform a comprehensive review of the Department's statutory authority to identify laws, including mandatory reporting requirements, that may be outdated or obsolete.	Partially Agree	June 2002
7	42	Make various improvements to the Department's fiscal operations.	Partially Agree	July 2003

RECOMMENDATION LOCATOR
Agency Addressed: Department of Agriculture

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
8	46	Ensure the indirect cost allocation methodology is fair, reasonable, and consistently applied to all applicable programs.	Agree	June 30, 2001
9	49	Work with the General Assembly to assess the general benefit derived from maintaining statutory indirect cost caps on certain programs.	Disagree	—
10	51	Ensure methods for allocating personal services costs to cash-funded programs are both reasonable and accurate.	Partially Agree	March 31, 2001
11	53	Ensure Excess Cash Reserve Plans are both reasonable and effective, given the circumstances applicable to individual cash funds.	Agree	December 2002
12	55	Work with the Office of State Planning and Budgeting, the Joint Budget Committee, and the State Controller's Office to ensure certain travel-related expenditures are handled appropriately for budgeting and accounting purposes.	Implemente d	March 31, 2001
13	62	Improve the planning and reporting processes associated with information technology projects.	Agree	December 2001
14	62	Review progress on the Colorado Department of Agriculture Information System (CDAIS) project, identify system components that do not function as planned and/or do not meet user needs, and then develop and implement a corrective action plan.	Agree	December 2001

RECOMMENDATION LOCATOR
Agency Addressed: Department of Agriculture

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
15	63	Formally establish an information technology steering committee.	Partially Agree	December 2001
16	65	Improve processes for monitoring information technology contractors.	Agree	Ongoing
17	66	Develop formal, written policies and procedures and provide appropriate cross-training to staff carrying out various contract-related functions.	Agree	December 31, 2001
18	73	Work with the General Assembly and the State Board of Stock Inspection to review the scope and operations of the Brand Inspection Program.	Disagree in part; Agree in part	December 2002
19	76	Work with the General Assembly to eliminate statutory responsibilities for providing direct rodent and predatory animal control services.	Agree	December 2002
20	79	Work with the General Assembly to repeal statutes which shift the cost of fruit and vegetable inspections away from funding sources other than direct user fees; establish a fee structure that recoups all direct and indirect program costs.	Disagree	—
21	82	Institute improved oversight and accountability processes to ensure audit recommendations are addressed in both a timely and complete manner.	Agree	December 2001

Description of the Department of Agriculture

Overview

The Colorado Department of Agriculture provides over 300 different regulatory, inspection, marketing, consumer protection, and miscellaneous agricultural services across the State. The Department's stated mission is to strengthen agriculture's future, provide consumer protection, promote environmental quality and animal health, and ensure equity and integrity in business and government.

The Department is overseen by the State Agricultural Commission, which consists of nine members appointed by the Governor and confirmed by the Senate. The Commission's responsibilities include:

- Formulating general policy regarding the management of the Department and the enforcement of laws, rules, and regulations pertaining to agriculture.
- Making recommendations to the Commissioner, the Governor, and the General Assembly regarding agricultural issues within the State.
- Adopting and reviewing the Department's budget.

Organizational Structure

The Department is managed by the Commissioner of Agriculture, who is appointed by the Governor with Senate confirmation. Organizationally, the Department is composed of the Commissioner's Office and seven divisions, which are described below:

- **Animal Industry** provides livestock disease control and prevention services, operates an animal health laboratory, conducts animal cruelty investigations, provides rodent and predatory animal control services, and regulates pet care facilities (e.g., kennels).

- **Brand Inspection** registers, inspects, and verifies livestock brands. It also licenses livestock sale barns, meat packing plants, and alternative livestock farms. The State Board of Stock Inspection oversees the operations of this Division.

- **Inspection and Consumer Services (ICS)** performs inspection, certification, and verification activities related to the following: eggs, animal feeds, fertilizers, meat processing facilities, weights and measures, fruit and vegetables, and agricultural commodity dealers/handlers/warehouses.

- **Markets** promotes Colorado food and agricultural companies in local, regional, national, and international markets.

- **Plant Industry** performs inspection, certification, verification, and management activities related to the following: noxious weeds, biological pests, apiaries, produce, plants, seeds, pesticides, and groundwater (among other areas of responsibility).

- **Soil Conservation** provides coordination and assistance to the State's 77 local soil conservation districts. Because this Division was only recently moved to the Department (this move was effective July 1, 2000), we did not include it in the scope of our audit.

(The Department's seventh division, the **Colorado State Fair**, was also eliminated from the scope of our review.)

In addition to the divisions, there are five independent authorities connected to the Department: the Colorado State Fair Authority, the Colorado Horse Development Authority, the Colorado Wine Industry Development Board, the Colorado Agricultural Development Authority, and the Colorado Aquaculture Board.

Financial Overview

In Fiscal Year 2000 the Department spent approximately $26.3 million. In that year the Department also employed 265.4 FTE. The following table shows the funding sources for the Department for Fiscal Years 1999 through 2002.

Department of Agriculture Funding Sources Fiscal Years 1999-2002				
Fund Source	**FY 1999 (Actual)**	**FY 2000 (Actual)**	**FY 2001 (Appropriated)**	**FY 2002 (Request)**
General	$ 7,503,560	$ 8,066,117	$10,086,136	$10,597,207
General Exempt	111,377	150,226	0	0
Cash	7,994,391	8,604,092	17,214,598	17,799,003
Cash Exempt	9,124,966	8,849,495	1,569,613	1,329,450
Federal	367,543	582,970	1,098,268	1,245,685
Total	**$25,101,837**	**$26,252,900**	**$29,968,615**	**$30,971,345**

Source: Joint Budget Committee documents.

The Department's expenditures by major organizational unit for the same fiscal years are shown in the following table:

Department of Agriculture Expenditures by Organizational UnitSFiscal Years 1999-2002				
Organizational Unit	**FY 1999 (Actual)**	**FY 2000 (Actual)**	**FY 2001 (Estimated)**	**FY 2002 (Request)**
Commissioner's Office	$ 3,591,905	$ 4,187,147	$ 4,746,016	$ 5,144,219
Agricultural Services[1]	9,975,267	10,398,600	10,739,065	10,841,145
Markets	654,113	712,048	785,404	806,515
Brand Inspection	2,802,513	3,044,961	3,003,512	3,416,073
Special Purpose[2]	443,039	570,550	448,155	448,555
Soil Conservation[3]	0	0	2,194,083	2,252,088
State Fair	7,635,000	7,339,594	8,052,380	8,062,750
TOTAL	**$25,101,837**	**$26,252,900**	**$29,968,615**	**$30,971,345**

Source: Joint Budget Committee documents.

[1] Divisions of Animal Industry, Inspection and Consumer Services, and Plant Industry.

[2] Wine Promotion, Vet Vaccine and Service Fund, and Brand Estray Fund.

[3] Prior to FY 2001, this division resided in the Department of Natural Resources.

Regulatory Functions

Chapter 1

Overview

The Department of Agriculture is primarily a regulatory agency. The Department's regulatory responsibilities include licensing businesses and individuals, performing inspections, and investigating complaints. As shown below, four of the Department's divisions employ inspectors:

- **Brand Inspection** has 55 brand inspectors.

- **Plant Industry** has 13 multiple inspectors.

- **Inspection and Consumer Services (ICS)** has 12 multiple inspectors in its Technical Services Program, 6 measurement standards inspectors, 5 farm products inspectors, and 37.5 fruit and vegetable inspectors. It should be noted that most of the Department's fruit and vegetable inspectors are part-time, seasonal workers.

- **Animal Industry** has two pet care facility inspectors and one animal welfare inspector.

As the list shows, both the Divisions of Plant Industry and ICS use multiple inspectors to perform some of their functions. As the name implies, multiple inspectors conduct inspections with regard to a variety of agricultural products and services instead of specializing in only one area, like the Department's pet care facility inspectors or farm products inspectors.

Our audit work focused on inspection programs in the following areas: the Division of Plant Industry, the Technical Services Program within ICS, and the Pet Care Facilities Program within the Division of Animal Industry.

Best Practices for Inspection Programs

The Department's inspection programs address a multitude of issues—everything from enforcing rules regarding the proper application of pesticides to ensuring the humane treatment of animals boarded in kennels. Despite the wide variety of agricultural services and products the Department inspects, our research shows that effective and economical inspection programs have commonalities. One of our audit objectives was to use these commonalities as a basis for identifying the key inspection practices and approaches that make up a thorough, efficient regulatory program regardless of the subject matter involved. We then used these "best practices" as a gauge for identifying areas where the Department's existing inspection approaches need improvement. The following exhibit outlines what we believe to be the components of an economical, efficient, and thorough regulatory approach, especially with regard to multiple inspections.

Best Practices for Inspection Programs

- **Set annual, statewide goals for each inspection type.** Identifying the scope of a program's inspection responsibilities and then determining what level of inspection coverage is attainable and desirable are the first steps in developing an effective inspection program. Performing these activities is especially important for the Department, since few of its inspection duties have statutory frequency requirements.

- **Prioritize all inspection responsibilities using reasonable criteria, especially in programs where a multiple inspection approach is used.** Scarce resources and other factors may limit the Department's ability to conduct all of the inspections it may deem necessary. Therefore, prioritizing all of the inspection responsibilities that a particular program must attend to is important. Many factors should be taken into account in setting priorities, including human or animal health concerns, environmental safety, consumer protection, and economic issues. In some cases once programwide priorities are established, inspection activity should be further targeted using the information that the Department has on individual entities. For many programs, adopting a risk-based inspection approach is the best way to do this. We discuss key aspects of a sound risk-based inspection program later in this chapter. It should be noted that using a risk-based inspection approach is not always appropriate for every situation, but because of the efficiencies that can be realized from organizing inspection activity on the basis of risk, the Department should use this approach whenever possible.

- **Assign inspection workload that is achievable and specific to each inspector's territory.** Most of the Department's inspectors have a specific territory, each with its own characteristics. These characteristics (e.g., rural versus urban, agricultural versus industrial) will affect the number and type of inspections that need to occur within that territory. These factors should be considered when workload is assigned.

- **Monitor each inspector's workload periodically (i.e., planned versus actual inspection activity), make adjustments necessary to meet statewide goals, and then use this information to help gauge inspector performance.** We suggest monitoring inspector workload on at least a quarterly basis so that timely adjustments can be made as they are needed.

- **Computerize all data collection, reporting, and analysis tasks.** Ideally, inspectors should be able to record, receipt, and report their inspection results directly in the field using a laptop computer. Field reports should then be aggregated in a database that both managers and inspectors can easily access for monitoring, trend analysis, and other purposes.

Optimizing Performance Will Require Many Steps

The following table depicts the current status of three of the Department's inspection programs in terms of utilizing our best practices approach. As the table shows, many actions need to be taken to optimize performance in these three inspection programs. Taking these steps, however, will ultimately make the Department's inspection programs more effective and economical.

Status of Best Practices Inspection Approach for Selected Department of Agriculture Programs

Program Name	Best Practices Achieved	Best Practices Yet To Be Fully Implemented
Division of Plants (Multiple Inspection)	T Prioritize all inspection responsibilities. T Assign inspection workload that is achievable and territory-specific. T Monitor workload to gauge inspector performance.	X Set annual, statewide goals for each inspection type. X Computerize data collection, reporting, and analysis.
Pet Care Facilities Program within the Division of Animal Industry	T Set annual, statewide goals for each inspection type. T Prioritize all inspection responsibilities. T Assign inspection workload that is achievable and territory-specific.	X Monitor workload to gauge inspector performance. X Computerize data collection, reporting, and analysis.
Division of Inspection and Consumer Services (ICS) (Multiple Inspection)		X Set annual, statewide goals for each inspection type. X Prioritize all inspection responsibilities. X Assign inspection workload that is achievable and territory-specific. X Monitor workload to gauge inspector performance. X Computerize data collection, reporting, and analysis.

Source: Office of the State Auditor analysis.

The following narrative provides more detail on the specific deficiencies we found with regard to each of the best practices.

Set Annual, Statewide Goals for Each Inspection Type

The first step in creating an efficient and effective inspection program is determining the scope of a program's responsibilities (e.g., the number of entities that are subject to inspection). Once this has been determined, a program can use this information to establish statewide and employee-specific inspection goals. The Division of Plant Industry has done a good job of determining the scope of its inspection responsibilities (i.e., staff have an accurate count of the entities subject to inspection in each regulatory area); however, the Division still needs to establish statewide coverage goals in one important program (i.e., pesticide applicator). Annual coverage goals should be established in this program so that the Department can ensure each licensed applicator is inspected according to a regular schedule.

The other division that needs improvement regarding this best practice is ICS. This division has not accurately determined the scope of its inspection responsibilities nor has it established annual, statewide coverage goals in several areas (e.g., fertilizer, anhydrous ammonia tanks, eggs, feed, and game processing plant inspections). Division managers need to use the data which are available in hard-copy files and the computerized Risk-Based Management System to determine the number of businesses that are subject to inspection each year. This information should then used to establish reasonable statewide coverage goals for each type of inspection that the Division conducts. It is noted that, in some cases, it is difficult for the Division to establish the number of businesses subject to inspection because of the absence of licensing and registration requirements at the retail level (e.g., feed, fertilizer).

Prioritize All Inspection Responsibilities

As stated previously, scarce resources and increasing responsibilities drive the need for governmental programs to prioritize their activities. Prioritization is especially important for programs which use a multiple inspection approach (i.e., ICS and the Division of Plant Industry) because staff in these programs have several competing responsibilities.

Overall, we found that ICS needs to do a better job of prioritizing the duties of its inspectors. Multiple inspectors in this division are responsible for inspecting fertilizers, anhydrous ammonia tanks, eggs, feed, meat processing facilities, and small scales. Inspectors also perform package and price verification tests. The Division has not prioritized the various inspection duties that fall under the responsibility of its multiple inspectors, even though some duties are more important in terms of ensuring public safety. Prioritization is also needed to help ensure that some inspections can be completed during a specific time frame (e.g., inspections of anhydrous ammonia tanks and wild game processing facilities, which are seasonal in nature).

On the other hand, upon our request, the Division of Plant Industry recently prioritized the responsibilities of its multiple inspectors using the following criteria:

- Human health and environmental importance
- Economic importance

We believe that the results of this exercise will give managers a good starting point for planning inspection activity at the Division of Plant Industry and, perhaps, could serve as a model for prioritizing inspection duties at ICS.

Assign Inspection Workload That Is Achievable and Territory-Specific

Again, ICS needs to make improvements in this area. We found that inspector workload in this Division is sometimes assigned using just historical information instead of data showing the number of inspections that are needed or possible within a specific territory. For example, managers use the number of feed inspections that a particular inspector performed during the previous year as the starting point for assigning next year's workload. This number may or may not represent the "best" efforts of a particular inspector. Further, because ICS has not accurately determined the scope of some of its inspection responsibilities, historical workload figures may not represent the number of inspections that need to occur within a specific territory in order to achieve a certain level of statewide coverage.

Monitor Inspector Workload and Use Data to Gauge Performance

Inspector performance should be based on qualitative and quantitative factors that are measurable and appropriate. Currently the Pet Care Facilities Program and ICS need to make improvements in this area. For example, inspectors in the Pet Care Facilities Program are evaluated on their ability to use a risk-based inspection approach, even though this program does not currently use a risk-based approach. Further, these inspectors are not judged on their ability to complete a certain number of inspections each year, even though this represents one of the most basic ways to gauge inspector performance. A similar situation exists in ICS. Managers in this division are not formally compiling year-end inspection data so that they can accurately judge inspector performance or gauge the achievement of program goals. For example, statutes require the Division to inspect small scales on an annual basis. Even so, managers do not currently compare licensure data with inspection reports to ensure each scale actually receives an annual inspection. Therefore, managers have no way of knowing whether this statutory inspection requirement has been met.

We also noted that it is difficult for ICS inspectors to easily compile data showing how many inspections of a certain type they conduct during the year because of problems with the Division's computer system. Consequently, managers and inspectors must manually compile statistics so they can monitor performance against expectations, identify potential problems, and make adjustments when needed.

Computerize All Data Collection, Reporting, and Analysis

All three divisions need to make improvements relative to this best practice. Of the three, ICS has made the most progress toward full computerization. Since October 1999, ICS multiple inspectors have been using laptop computers to record and electronically transmit their inspection results into a centralized database. Extracting and analyzing the information contained in this database, however, is still a problem. Consequently, staff are still using some manual processes to compile and analyze inspection data for management purposes. In Chapter 3 we discuss the need to purchase reporting software to address this issue.

On the other hand, the Division of Plant Industry and the Pet Care Facilities Program are just beginning to computerize their activities. Multiple inspectors in the Division of Plant Industry have laptop computers, but the Division does not currently have electronic data collection, reporting, and analysis capabilities. Consequently, inspection reports are still filled out manually and mailed to the main office where an administrative assistant enters them into a spreadsheet program for compilation and analysis purposes. A computer system similar to the one that exists at ICS is being designed for Plant Industry, but this system has yet to be deployed.

Pet Care Facilities Program inspectors do not even have laptop computers. As such, most of this program's data collection, reporting, and analysis tasks are accomplished through a duplicative and partially manual process that requires the assistance of administrative staff. During the audit a contractor had almost completed work on a computer system for the Pet Care Facilities Program. Unfortunately, prior to completing the system, the contractor realized that the programming was inferior. The contractor is now in the process of redoing his work, which will result in an implementation delay.

The Department can vastly improve the efficiency and effectiveness of its regulatory programs by incorporating these best practices into its inspection activities where they are now absent.

Recommendation No. 1:

The Department of Agriculture should improve the efficiency and effectiveness of its inspection activities by requiring each of its inspection programs to incorporate the best practices approaches presented in this report. This should include, but not be limited to:

- Setting annual, statewide goals for each inspection type.
- Prioritizing all inspection responsibilities using reasonable criteria, especially in programs where a multiple inspection approach is used.
- Assigning inspection workload that is achievable and specific to each inspector's territory.
- Monitoring each inspector's workload periodically, making adjustments necessary to meet statewide goals, and then using this information to help gauge inspector performance.
- Computerizing all data collection, reporting, and analysis tasks.

Department of Agriculture Response:

Agree. New data have become available in the last month to allow this to be done for all inspection types. A policy will be adopted stating inspections involving health and human safety will take priority over more general consumer protection and economic issues. New computer data are also now available to facilitate workload assignment. Monitoring tasks have been done manually in the past but should be computerized by spring of 2001.

It is recognized that more could be done to improve inspection practices through the effective use of data analysis and software applications already found within the Department. Additionally, the Department could leverage collaborative tools to assist in improving these practices. This is one of the centerpieces of the ongoing development of the Enterprise Information System (EIS), which forms the foundation of the Colorado Department of Agriculture Information System (CDAIS). The Department is completing software development to incorporate best practices into inspection approaches, dependent upon the level of funding for software development.

Expanding the Use of Risk-Based Inspections Will Save Resources

In our 1994 audit of the Department, we recommended that the Department develop and implement a risk-based inspection approach in several of its programs. Risk-based inspections are a good way to save resources while still providing oversight in the areas that need it most. At the beginning of this audit, Department managers told us that four inspection programs were now utilizing a risk-based approach (i.e., pesticide applicators, pet care facilities, ICS multiple inspectors, and farm products). In actuality, only two of the Department's programs have standardized, fully functional risk-based inspection systems (i.e., farm products and one program that is under the auspices of the ICS multiple inspectors—meat processing facility inspections). It is also noted that the risk-based approach that the Department uses for its meat processing facility inspections is required under a cooperative agreement with the United States Department of Agriculture (USDA).

We found that the following steps should be undertaken when creating a sound risk-based inspection approach:

- Develop reasonable risk criteria. For example, USDA's criteria for rating the risk of meat processing facilities use the number and type of deficiencies found during previous onsite reviews as the basis for determining risk.

- Use the risk criteria to assign an initial risk score to all regulated entities.

- Determine how risk scores will equate to a particular inspection frequency in terms of calendar days (e.g., a business with a high risk score will be inspected every six months whereas a business with a low risk score will be inspected every two years). Policies should also establish expectations for follow-up visits or other procedures when violations are found.

- Establish a reasonable expectation that 100 percent inspection coverage will be achieved on a regular basis regardless of risk (e.g., every business is inspected at least once every three years).

- Update risk scores as appropriate. For example, the risk criteria developed by the Pet Care Facilities Program add risk points for each valid complaint, significant violation, uncorrected violation, and fine against a particular entity. The points assessed from these actions retire 12 months from the date they are issued.

- Require all inspectors to consistently follow the risk approach and track any overrides (i.e., cases where an entity is being inspected more or less than its risk score would indicate is necessary).

Again, all of these functions should be computerized to the extent possible.

Programs Are in Differing Stages of Implementing a Risk-Based Inspection Approach

To determine which aspects of our best practices approach are now in use, we reviewed the inspection approaches currently being utilized in three selected programs. The following table shows the results of our review:

Status of Best Practices ApproachSRisk-Based Inspections
Selected Department of Agriculture Programs

Program Name	Risk-Based Inspection Steps Achieved	Risk-Based Inspection Steps Yet to Be Fully Implemented
Pesticide Applicator (1 of the 18 duties of the Division of Plant Industry's multiple inspectors)	T Develop reasonable risk criteria.	X Assign a risk score to all regulated entities. X Determine inspection frequency for each risk category. X Establish expectation that 100 percent inspection coverage will be achieved on a regular basis. X Update risk scores as needed. X Require use of approach by all inspectors and track overrides.
Pet Care Facilities	T Develop reasonable risk criteria. T Determine inspection frequency for each risk category. T Establish expectation that 100 percent inspection coverage will be achieved on a regular basis. T Update risk scores as needed.	X Assign a risk score to all regulated entities. X Require use of approach by all inspectors and track overrides.
ICS Multiple Inspection	T Develop reasonable risk criteria. T Assign a risk score to all regulated entities. T Update risk scores as needed.	X Determine inspection frequency for each risk category. X Establish expectation that 100 percent inspection coverage will be achieved on a regular basis. X Require use of approach by all inspectors and track overrides.

Source: Office of the State Auditor analysis.

As the table shows, these three programs are all in different stages of implementing their risk-based inspection approach; however, none of the programs has a fully operational system now in place.

It should be noted that not all programs will benefit from a risk-based inspection approach. For example, the Department's fruit and vegetable inspections are done on solely a request basis, so adopting a risk-based inspection approach in this program would not make sense. We do believe, however, that the Department has programs in addition to the ones shown in the previous table that would benefit from a risk-based inspection approach. Further, Colorado's growing population continues to increase the number of entities that the Department regulates. In order for the Department to control its increasing workload, it will have to utilize smarter management techniques such as risk-based inspections.

Recommendation No. 2:

The Department of Agriculture should identify all programs that would benefit from using a risk-based approach to inspections, redirect resources as needed, and then fully implement a risk-based approach where it is warranted. To the extent possible, the Department should use the best practices approach outlined in this report when implementing this recommendation.

Department of Agriculture Response:

Agree. This effort can be readily accomplished through better integration of information currently collected with Geographic Information Systems (GIS), which are still undergoing development within the Department. In addition, comments found in our response to Recommendation No. 1 would apply as well. We estimate that it will take about a year and a half to identify and implement workload-based inspections and complete software development to incorporate best practices into inspection approaches, dependent upon the level of funding for software development.

Certain Statutory Inspection Requirements Need Modification

Only a few of the Department's programs are statutorily required to perform their inspections according to a specified frequency. For example, statute dictates that all nursery stock kept or offered for sale must be inspected at least once each year. We do not believe this statutory requirement is necessary for two reasons.

First, nursery inspections take up a disproportionate share of inspector time, given their importance in terms of protecting the public. In Fiscal Year 2000 nursery inspections made up about 8.5 percent of the Division of Plant Industry's multiple inspection workload. As mentioned previously, the Division has recently prioritized all of its inspection responsibilities, and management deemed nursery inspections to be a low priority in terms of both human health/environmental importance and economic importance. We agree with this assessment given the relative importance of other types of inspections under this Division's authority. It is interesting to note that in Fiscal Year 2000 a comparable amount of time was spent conducting nursery inspections as was spent performing other higher-priority inspections such as those in the chemigation and pesticide applicator areas, even though these inspections are obviously more important in terms of protecting public health and safety. The amount of time spent on nursery inspections is directly attributable to the fact these inspections must be performed annually according to statute while other types of inspections, even though they might be of greater importance, are not subject to a similar requirement.

Second, Division staff told us that nursery inspections are ideally suited for a risk-based approach and that adopting such an approach would result in discernable efficiencies. In the past, nursery registrants were usually smaller, locally owned businesses. Many new registrants are now corporate chain stores, which carry large quantities of nursery stock (i.e., thousands of pieces during peak season). In Fiscal Year 2000 corporate stores comprised almost 27 percent of the nursery businesses inspected by the Department (111 of 414 entities). Division staff report that corporate stores disproportionately account for most of the nursery stock-related violations they find (e.g., dead or dying plants). In fact, in Fiscal Year 2000 these businesses accounted for nearly 60 percent of the total violations reported (6,621 of 11,130 violations). Consequently, focusing inspection resources on these higher-risk establishments would save resources while still providing a great deal of consumer protection. In order to move to a risk-based inspection approach for nurseries, however, statutory changes would be necessary.

Recommendation No. 3:

The Department of Agriculture should work with the General Assembly to repeal statutory provisions that require annual inspections of all nursery stock kept or offered for sale. Upon repeal of this requirement, the Department should establish a risk-based inspection approach that balances consumer protection with resource constraints.

Department of Agriculture Response:

Agree. Implementation depends upon the General Assembly and the nursery industry. The Department will work with the General Assembly and the industry to find the appropriate avenue to make the necessary statutory change.

The Department Inspects Two Types of Meat Processing Plants

The Department is responsible for conducting inspections in two types of meat processing facilities: (1) custom slaughter or "custom-exempt" plants, and (2) wild game processing plants. Custom-exempt facilities are locker plants that slaughter and process meat for individual consumption (e.g., not for sale). The Department inspects these facilities under the auspices of a cooperative agreement with USDA, which will be discussed in more depth below. Wild game processing facilities are exempt from federal scrutiny, and as such, the Department regulates and inspects these businesses by virtue of its own administrative authority. In August 2000 there were about 60 custom-exempt plants and 30 wild game processing facilities operating in Colorado.

The cooperative agreement requires the Department to adhere to various USDA standards and guidelines when conducting its inspections of meat processing facilities. The Department must use USDA guidelines when it inspects custom-exempt meat processing facilities. Although it is not required, the Department also generally uses these guidelines when it conducts inspections of wild game processing plants. Among other areas of concern, USDA requires that inspections cover a facility's sanitation, pest control, waste disposal, record keeping, and package labeling practices. USDA guidelines also require use of a risk-based inspection approach that both categorizes the severity of deficiencies found during an inspection and determines the frequency at which subsequent inspections will occur (shown in the following exhibit).

USDA Risk Category and Inspection Frequency Guidelines
Meat Processing Facilities

TRisk Category 1
At least one critical deficiency found or operator continuously fails to correct problemsSQuarterly inspections with a follow-up inspection within five days to determine the acceptability of corrective actions taken

TRisk Category 2
At least one major deficiency foundSQuarterly inspections with follow-up on required corrective actions during the next quarterly review

TRisk Category 3
Only minor deficiencies foundSSemi-annual inspections

TRisk Category 4
No deficiencies foundSAnnual inspections

As shown in the exhibit, USDA guidelines require, at a minimum, an annual inspection of each licensed facility, even if no deficiencies were found in prior reviews. Although the Department is not obliged to use this standard in conducting its inspections of wild game processing plants, we believe that annual inspections constitute a reasonable minimum expectation for this type of inspection activity. Further, as stated previously, the Department generally uses the other components of USDA's inspection approach when it conducts inspections of wild game processing plants (e.g., same forms and inspection criteria). As such, when we reviewed the Department's inspection records related to wild game processing facilities, our minimum expectation was that each licensed facility would receive at least an annual inspection.

Inspections of Wild Game Processing Facilities Are Inconsistent

We reviewed the Department's inspection records for 32 wild game processing facilities that were licensed in 1998 and 1999. We reviewed these records because staff were still conducting inspections for Calendar Year 2000 at the time we finished our audit work. Our review revealed major problems, including the following:

- Only 22 inspections were conducted at the 32 plants during 1998 and 1999. If the Department had been conducting annual inspections of each plant, 64 inspections should have occurred during this period.

- No inspections were conducted at all during the two-year period in 12 of the 32 plants (38 percent).

- No rating was assigned to 11 of the inspection reports that were filed during this time frame. The USDA rating system is designed to establish the frequency at which future inspections of a particular facility should occur. Without a rating, it is difficult to determine whether the deficiencies observed during an inspection were severe enough to warrant increased scrutiny in the future.

- In some cases records showed that staff poorly timed their inspection visits, given the seasonal nature of operations at these businesses (e.g., inspection stops were made at times other than peak operating months). On these occasions, staff sometimes found facilities were closed or not operating, precluding the inspector's ability to observe operations as they might exist during peak business times.

Annual Inspections Would Help Ensure Sanitary Processing Conditions

Maintaining sanitary conditions at wild game processing plants is important to the consumers who patronize these businesses and also to maintain the health of the State's billion-dollar hunting industry. Conducting inspections of wild game processing facilities does pose a greater challenge for the Department than fulfilling some of its other inspection responsibilities, since most of these businesses operate only during peak big game season (i.e., roughly, September through December). Further, these plants are concentrated in just a few of the multiple inspectors' territories, so conducting these inspections may make it difficult for certain employees to meet their other routine inspection responsibilities. Even so, given the human health concerns that may result from poor sanitation, inadequate pest control, and the existence of other types of deficiencies at a meat processing facility, it is extremely important for the Department to conduct regular, thorough inspections of these businesses.

The problems we observed are likely the result of the Department not fully and formally articulating its inspection policy for wild game processing facilities. Formally adopting a risk-based approach modeled on USDA's guidelines (with a minimum requirement for annual inspections of each licensed facility during peak operating season) should help improve the Department's performance in this area.

Recommendation No. 4:

The Department of Agriculture should formally adopt and adhere to a risk-based approach for inspecting wild game processing facilities. The Department's approach should be modeled after USDA's guidelines for conducting inspections of custom-exempt meat processing facilities and should include, at a minimum, the requirement for an annual inspection of each licensed facility during peak operating season.

Department of Agriculture Response:

Partially agree. The Department will adopt a policy that all facilities which process only wild game be inspected at least annually and will be subject to a risk-based inspection approach. However, some of the USDA standards are not appropriate for facilities which do only game processing and other additional standards may be required. The Department will adopt a special set of guidelines for game processors. The Department has been actively developing more improved data delivery to all managers and employees alike. Efforts of past software development systems have improved both data and service delivery to customers but the Department agrees that more effort needs to be put forth to enhance other systems (e.g., wild game processing facilities) that have not been aligned with other software development projects that the Department has undertaken.

The Department's Complaint-Handling Processes Lack Essential Components

The Department routinely receives complaints from citizens on a variety of subjects. For instance, individuals may contact the Department to initiate an animal cruelty investigation, report damages resulting from the improper application of pesticides, or communicate difficulties they have encountered in dealing with agency employees. Responding to citizen complaints and concerns is an important responsibility for any governmental agency.

Prompt, appropriate handling of complaints shows that an agency is responsive, accountable, and concerned with the quality of its services. Further, complaint-related data can be very helpful to a regulatory agency like the Department in terms of focusing its inspection activities.

During our current review we observed that the Department's complaint-handling processes need substantial improvement. This problem was also noted in our 1994 performance audit of the Department. Current problems include:

- **Lack of formal, written complaint-handling policies and procedures.** This problem is apparent throughout most of the Department's organizational units, with the exception of the pesticide and farm products programs. We also noted that few of the Department's programs have standardized complaint forms, written guidelines for the timely investigation and disposition of complaints, or routine processes for communicating the status of a complaint investigation to the person who initiated it.

- **Absence of systematic logging or monitoring mechanisms to ensure complaints are prioritized using reasonable criteria, do not "fall through the cracks," and are resolved in a timely manner.** We also noted that most of the Department's programs do not summarize and analyze complaint data to identify areas in need of improvement, nor do they use complaint data to modify future inspection activity.

- **Poor or nonexistent record keeping.** In many of the Department's programs, complaint information is kept solely in individual files (e.g., a file containing information on a particular licensee) instead of in a centralized repository. One program manager told us that he keeps no paperwork at all on the complaints his Division receives. Maintaining no documentation whatsoever has obvious drawbacks, and keeping complaint information in individual files makes it difficult to compile trend data and pinpoint areas in need of improvement.

Developing departmentwide complaint-handling policies and procedures should help eliminate these problems. Individual programs can then develop supplementary procedures if staff need more specific guidance about how to deal with certain types of complaints.

The Process for Lodging a Complaint Should Be Easily Accessible and Well Publicized

Our research also shows that an effective complaint-handling system should be easy to access and well publicized so that citizens know how to voice their concerns. The Department also needs to make improvements in this area. For example, we found that only one of the Department's numerous brochures contains information explaining how to lodge a complaint. The Department has made strides in its efforts to place complaint information and forms on its Web page; however, this information could be more comprehensive and prominently displayed to increase user awareness and access.

Recommendation No. 5:

The Department of Agriculture should improve customer service by developing formal, written departmentwide complaint-handling policies and procedures that include the following (at a minimum):

- Guidelines for the timely investigation and disposition of complaints.
- Standardized complaint forms.
- Logging/monitoring requirements.
- Data collection and analysis expectations.
- Standardized processes for communicating with individuals who initiate a complaint.
- Record-keeping guidelines.
- Expectations for programs to use complaint data in planning future inspection activity (when appropriate).

The Department should also review all of its brochures and public information (including the contents of its Web page) to identify opportunities for increasing public awareness about its processes for lodging complaints.

Department of Agriculture Response:

Agree. The Department does plan to implement a common interface and database via an Internet application to collect such complaints. We estimate it will take about six to nine months to develop a Web-based application to collect and analyze complaints submitted to the Department. A committee composed of representatives of each division involved in the complaint process has been formed to address this issue. The committee will develop recommendations for changes in policy and procedures and it will address customer service issues.

The Department Should Review Its Statutory Responsibilities to Identify Outdated Mandates

During our review we noted that many of the statutes directing the Department's activities (regulatory or otherwise) are outdated or obsolete. This problem was first identified in our 1994 performance audit of the Department and still has not been adequately addressed. Outdated or obsolete statutes may cause confusion regarding the true nature of the agency's authority and responsibilities. Specific laws that are in need of revision include the following.

- **Statutes regarding county- and state-level authority to contract with the federal government for the control and eradication of rodents.** Existing statutes contain outdated references to the federal Department of the Interior. These references should be changed to reflect the fact that USDA is the federal agency with authority in rodent control matters, or the statutes should be rewritten to make them more generic (i.e., refer to the federal government instead of a particular federal agency). (Sections 35-7-102,104, and 201, C.R.S.)

- **Statutes that establish bounties for killing certain predatory animals, including wolves.** These statutes contradict federal laws and state regulations protecting wolves as an endangered species and should be revised. (Sections 35-40-107 and 108;110 and 111, C.R.S.)

The Department's statutory authority is vast, and as such, additional obsolete or outdated mandates may exist. As it agreed to in 1994, the Department should perform a comprehensive review of all statutes governing its operations, identify those laws that need to be updated, and then work with the General Assembly to make statutory changes where they are warranted.

Achieving Compliance With Certain Reporting Requirements May Waste Valuable Resources

We also identified several statutory reporting requirements that may be of marginal value. Input from Department staff confirmed our view that complying with these reporting requirements may be unnecessary because the public seldom makes requests for the reports. Further, Section 24-1-136(1)(e), C.R.S., directs executive agencies to continue producing operational reports and publications only as long as they are useful. This statute also clearly states that agencies should periodically review their reporting requirements to ensure that public resources are not being misdirected toward the fulfillment of outmoded directives. Statutory reporting requirements that are in need of review and possible elimination include:

- An annual report on the sale, production, use, and results of analyses conducted by the Department on commercial fertilizers, soil conditioners, plant amendments, and agricultural liming materials (Section 35-12-113, C.R.S.).

- An annual report on the sale, production, use, and results of analyses conducted by the Department on commercial feeds (Section 35-60-115, C.R.S.).

- An annual report on the results of nursery stock inspections where the stock offered was found to be of poor quality (Section 35-26-103, C.R.S.).

- The Department's annual report (Section 35-1-106(1)(d), C.R.S.).

Repealing the requirement for the departmentwide annual report alone would save an estimated $2,250 in staff time and other costs. After reviewing its various statutory reporting requirements, if the Department opts to continue producing certain reports, it should utilize the most cost-effective means available to publish them (e.g., produce them on a request-only basis and/or publish them solely in an electronic format for posting on the Department's Web page).

Recommendation No. 6:

The Department of Agriculture should perform a comprehensive review of its statutory authority to identify laws that may be outdated or obsolete. As part of its review, the Department should specifically identify statutory reporting requirements that are no longer cost-beneficial. The Department should then work with the General Assembly to repeal or modify mandates that are in need of elimination or revision.

Department of Agriculture Response:

Partially agree. A primary purpose of the sunset review process is to identify laws related to Department functions and activities that may be outdated or obsolete. In addition, agricultural and environmental organizations and other special interest groups often contact the Department, the Governor's Office, and state legislators when Department statutes and programs need further scrutiny. Also, the Agricultural Commission, Commissioner, and Department staff meet six times a year to review Department programs and activities. We believe these procedures are sufficient for statutory review. However, in 2002 we plan to update the Department's 1998 report, "A Review of Rules and Regulations of the Colorado Department of Agriculture."

Fiscal Issues

Chapter 2

Overview

As explained in the Description Chapter, the Department receives its funding from mostly cash and general fund sources. The following table shows the Department's actual spending for Fiscal Years 1998-2000 by funding source (excluding the State Fair):

Department of Agriculture Actual Spending by Funding Source
Fiscal Years 1998-2000 (excluding State Fair)

Funding Source	FY 1998	FY 1999	FY 2000	% Change FY 1998-2000
General/General Exempt	$ 7,458,861	$ 7,614,937	$ 8,216,343	10.2%
Cash/Cash Exempt	9,076,231	9,484,357	10,113,993	11.4%
Federal	546,586	367,543	582,970	6.7%
Total	**$17,081,678**	**$17,466,837**	**$18,913,306**	**10.7%**

Source: Department of Agriculture and Joint Budget Committee documents.

As the table indicates, cash sources accounted for the majority of the Department's funding over this three-year period**S**i.e., about 54 percent of the total. General funds made up another 44 percent of total funding during the period and federal funds accounted for the rest (less than 3 percent). The table also shows that overall spending at the Department has increased substantially in the past three fiscal years (10.7 percent). Spending relative to cash sources increased at the highest rate during the period, followed by general fund spending and then spending relative to federal funds.

This chapter discusses the role that cash funding and, more specifically, fee revenue, plays in determining the Department's fiscal health. We also discuss a variety of other fiscal matters in this chapter, including the Department's direct and indirect cost allocation methodologies, its compliance with Senate Bill 98-194 (Cash Funds Act), and the propriety of certain travel-related expenditures.

Many Fees Are Now Set at Their Statutory Maximum

As shown in the previous table, cash funding is very important to the Department; however, managing this funding source is not simple. Most of the Department's cash funding comes from charging fees for licenses, registrations, and inspections. In all, there are about 55 different fees now in effect at the Department. Further, fees are set in a variety of ways, which makes modifying them more complicated. For example, some fees are specifically established in statute (29 of the 55 existing fees, or 53 percent), which reduces the Department's ability to control them. The State Agricultural Commission, the State Board of Stock Inspection, and the Commissioner of Agriculture also have the authority to set certain fees, a situation that affords relatively more control to the Department in terms of enacting changes.

During the audit we also observed that most of the Department's statutorily set fees (22 of 29 fees, or 76 percent), are now at their legal maximum. Further, most of the fees that are at their statutory maximum have been set at this level for at least 10 years (17 of 22 fees, or 77 percent). Although the Department's fee revenue is still continuing to rise as a result of increasing workload (i.e., the number of licensees, registrants, and inspections continues to increase each year), revenue from fees is increasing at a rate lower than the Department's spending. Indeed, we noted that the revenue the Department collected from fees during Fiscal Years 1998-2000 increased only about 7.7 percent. This increase is lower than the percentage increase in overall spending at the Department over the same time period (10.7 percent). It is also lower than the 11.4 percent increase in cash spending and the 10.2 percent increase in general fund spending that occurred in these years. The following table summarizes the fee revenue collected by the Department's main divisions for Fiscal Years 1998-2000:

Department of Agriculture Fee Revenues by Major Division, Fiscal Years 1998-2000				
Division	**Fiscal Year 1998**	**Fiscal Year 1999**	**Fiscal Year 2000**	**% Change 1998-2000**
Animal Industry	$ 444,963	$ 385,407	$ 476,548	7.1%
Brand Inspection	3,820,632	3,405,549	3,660,353	-4.2%
Inspection & Consumer Services (ICS)	2,741,551	3,765,522	3,954,136	44.2%
Markets	365,146	390,388	241,337	-33.9%
Plant Industry	1,492,568	1,732,916	1,964,412	31.6%
General (Unallocated)	817,929	145,648	128,907	-84.2%
Total	**$9,682,789**	**$9,825,430**	**$10,425,693**	**7.7%**
Source: Office of the State Auditor analysis of Department data.				

As the table shows, fee collections in three areas (i.e., Brand Inspection, Markets, and "Unallocated") actually decreased over the period. The divisions that experienced marked increases in fee collections (e.g., ICS and Plant Industry) house programs that have experienced relatively higher workload growth in recent years. Consequently, fee collections in these divisions have risen as more licenses and registrations were issued and more inspections were conducted.

A Fiscal Crisis May Be Emerging

Overall, we believe that these spending and revenue trends may indicate an emerging fiscal crisis for the Department. Specifically, unless the Department takes action to begin raising more revenue from cash sources, more general tax money will be needed to pay for operations, or service levels may suffer. This may be difficult, however, in light of the aforementioned issues regarding the Department's current fee levels and its relative inability to control them.

It should also be noted that the Department's operations have always been partially supported by the General Fund. Increasing this subsidy by any substantial margin, however, may not be an option given TABOR and the other fiscal constraints under which the State now operates. It should further be noted that even though the Department receives about 44 percent of its annual funding from the General Fund, part of this money is not derived from general tax sources. Rather, some of these funds come from fees that the Department charges and deposits in the General Fund because no separate cash fund exists to handle these receipts. Many of the fees collected by ICS fall into this category (e.g., egg inspection fees, scale inspection fees). Because of inadequate information, however, we could not get a clear picture of the amount of funding that the Department receives from general tax dollars versus fees handled through the General Fund.

We believe that this situation has come about, at least in part, from inadequate planning and fiscal management. To remedy the situation before it becomes a fiscal crisis, therefore, the Department needs to take a number of actions. Taking these actions should help Department managers and other decision makers more clearly identify potential problem areas so that steps can be taken to ensure a healthy fiscal future for the agency. Steps should include the following:

- **Identifying the operating costs for all programs partially or wholly supported by fees.** This is the first step to better understanding the Department's fiscal position. Any cost analysis the Department conducts should not be limited to only those programs supported by cash funds; rather, it should also include programs supported by fees handled through the General Fund. As stated previously, the Department currently has very little information about the amount of general tax revenue needed to help run these programs. This is especially apparent at ICS, where several programs handle their fee collections through the General Fund and not through separate cash funds.

- **Reviewing the funding sources for all programs, including revenues obtained from fees, to identify problem areas.** Only a few of the Department's fully cash-funded programs are regularly and systematically analyzing their revenues and fee structures. Other programs do little, if any, methodical analyses in these areas. This is especially apparent in programs where fees have reached their statutory maximum and/or programs where general funding is available (e.g., several programs at ICS). The General Assembly and other decision makers rely on the Department to identify fees that need modification. Just because a fee is set in statute or handled through the General Fund does not relieve the Department of its responsibility to periodically review it for adequacy and fairness.

- **Establishing objectives for the level of general fund support that will be expected in certain programs.** We acknowledge that some of the Department's programs were not designed to be entirely cash-funded, and consequently, they should not be expected to establish fees that cover all their direct and indirect operating costs. Designing a program in this manner is usually based on the premise that, at some level, the services provided benefit the public as a whole. One example of this type of program is the Department's regulatory program for eggs. The inspections this program conducts clearly provide a benefit to the general public by helping to ensure the quality and safety of eggs. Fees related to this program are handled through the General Fund and are not explicitly expected to cover program costs, which is an appropriate expectation given the program's purpose.

The general benefit provided by other programs that are partially supported by the General Fund, however, is not as clear. One example is the metrology services (i.e., standards certification) that the Department provides to private businesses. These services do not directly benefit the public as a whole, yet general tax dollars are being used to help provide them. Our 1994 performance audit recommended that the Department work with the General Assembly to establish fees sufficient to recoup the actual cost of providing these services. Although the Department agreed with this recommendation, it has not been implemented. We now reiterate our original recommendation and urge the Department to implement it as quickly as possible. We also recommend that the Department identify other programs where a similar situation exists. Further, if the Department cannot or will not seek the authority to impose fees at a level sufficient to recoup the actual cost of providing services that do not benefit the average taxpayer, then it should at least establish an objective for the portion of program costs that fees *will* be expected to cover. Otherwise, as costs increase and fee revenue does not, more general tax revenue will be needed to pay for services that do not provide a general benefit to Colorado citizens.

- **Developing a more systematic process for collecting the information needed to make fee modification decisions.** We also noted that some of the Department's more recent fee modification decisions have not been made on the basis of accurate or complete information. For example, in January 2000 the Division of Plant Industry asked the Commissioner to lower the registration fee on discontinued pesticide products as part of a plan to eliminate excess uncommitted revenues in one of the Department's cash funds. This decision was made even though the Division did not have accurate information on the number of registrations that would be affected. Subsequent to the fee change, staff compiled data showing that there were actually many more discontinued product registrations than they had originally estimated. As a result, staff had to seek another fee change in November 2000 to avert an impending revenue shortfall. Better information is needed prior to making fee changes to ensure mistakes like this are not repeated. Planned improvements in the Department's computer systems should help the Department collect and analyze the data needed to make better informed fee modification decisions. Chapter 3 provides more information on this topic.

We also recommend that the Department work with the General Assembly to identify areas where it, the State Agricultural Commission, the Commissioner of Agriculture, or another Type 1 board or commission can assume the responsibility for setting fees. Continuing to specify so many of the Department's fees in statute will only cause a recurrence of the problems that are now apparent.

Recommendation No. 7:

The Department of Agriculture should improve its ability to make sound fiscal decisions by:

- Identifying the total operating costs for all programs that are partially or wholly supported by fees.

- Reviewing the funding sources for all programs to identify potential problem areas.

- Working with the General Assembly to establish objectives for the level of general fund support that will be expected for certain programs.

- Identifying programs that now receive some support from general tax revenues but do not provide a general benefit to Colorado citizens. The Department should then work with the General Assembly to establish fees in these programs that are sufficient to recoup the actual costs of providing services.

- Developing a more systematic process for collecting the information needed to make fee modification decisions. To the extent possible, the Department should use technology to implement this part of the recommendation.

- Working with the General Assembly to identify areas where specific fees can be removed from statute and fee-setting authority can be delegated to the Department, the Commissioner of Agriculture, or another board or commission.

Department of Agriculture Response:

Partially agree. The Department may not use separate cash funds for general fund collections. This is set by statute. Every program has its own accounting unit to record revenue. The Department will review fees of programs for adequacy and fairness.

Efforts have been made to partner with other agencies in improving fiscal operations and making data more readily available (e.g., Financial Datamart with the Colorado Department of Public Safety). In addition, software development has improved collaboration between the Fiscal Section of the Administrative Services Section and the Commissioner’s Office. Depending on the level of IT development, it could take upward of two years to implement and integrate fiscal operation reporting by division within the Department.

The Department supports statutory changes that would permit full cost recovery for services provided to private companies and federal agencies. Specifically, we would prefer a system whereby these fees could be reviewed and set annually by the State Agricultural Commission, rather than directly fixed within the statute. This option would permit the Department to respond to inflationary pressures and avoid future fee inequities.

Agencies Must Develop Plans for Allocating Indirect Costs

State Fiscal Rules require agencies that receive cash and federal funds to prepare indirect cost allocation plans. In essence, indirect costs represent the "overhead" associated with providing various state services. Indirect costs can be divided into two categories: (1) the expenses associated with operating certain department-level functions that benefit more than one division or program (e.g., a department's accounting section or human resources unit), and (2) the expenses associated with providing various state-level services that benefit all state agencies (e.g., the cost of operating the State Controller's Office). For purposes of our discussion here, we will be focusing on the Department's methods for allocating department-level indirect costs among its cash-funded programs.

Department accounting staff told us that they use the distribution of FTE among the agency's cash-funded programs as their basis for allocating department-level indirect costs. This method is commonly used by many state agencies, and if applied consistently, it can be a reasonable way of allocating indirect costs. Using this method, the Department calculated a per-FTE indirect cost of $6,945 for Fiscal Year 2000. It should be noted that, in some cases, the Department must adjust the actual amount of indirect costs it charges a particular program because of statutory indirect cost caps. Five of the Department's cash-funded programs currently have statutory indirect cost caps (i.e., Mandatory Fruit and Vegetable Inspection, Chemigation, Organic Certification, Brand Inspection, and Alternative Livestock). The issue of statutory indirect cost caps is discussed in more depth later in this chapter.

The Department Does Not Consistently Apply Its Indirect Cost Allocation Methodology

Although the Department's indirect cost allocation methodology is both commonly used and reasonable, in practice, we found that the Department is not actually using this approach to allocate department-level indirect costs to its cash-funded programs. When we compared the Department's actual indirect cost allocations for Fiscal Year 2000 against the allocations that would have resulted if the Department had consistently used its stated methodology (adjusted for statutory caps), we found numerous inconsistencies. Our efforts to understand these inconsistencies were further hindered because the Department could not provide us with documentation that sufficiently explained its calculations. State Fiscal Rules specifically direct state agencies to maintain this type of documentation. The following table shows the results of our review:

Comparison of Actual Indirect Costs Charged to Selected Department of Agriculture Programs in Fiscal Year 2000 vs. Costs Indicated by the Department's Cost Allocation Methodology

Program	FTE	Actual Indirect Costs Charged	Amount That Should Have Been Charged if Methodology Applied Consistently ($6,945 per FTE)
Pet Care Facilities	4	$ 14,232	$ 27,780
Mandatory Fruit & Vegetable Inspection[1]	35.1	82,835	82,835
Nonmandatory Fruit & Vegetable Inspection	1	5,830	6,945
Chemigation[1]	3.5	1,869	11,602
Groundwater Protection	3.8	21,022	26,391
Nursery	2	10,246	13,890
Organic Certification[1]	1	90	3,570
Pesticide Applicator	6.3	29,245	43,754
Pesticide Registration	6.9	59,090	47,921
Seed Inspection	.7	3,350	4,861
Weed Free Crop Certification	0	1,100	0
Brand Inspection/Alternative Livestock[1]	63.2	101,060	101,060
Wine Promotion	1	6,945	6,945
Total	**128.5**	**$336,914**	**$377,554**

Source: Office of the State Auditor analysis of Department data.
[1] These programs have statutory indirect cost caps.

As the table shows, only three programs (i.e., Mandatory Fruit and Vegetable Inspection, Brand Inspection, and Wine Promotion) were actually charged the "correct" amount of indirect costs given the Department's stated methodology. Most programs were undercharged; however, two programs (i.e., Pesticide Registration and Weed Free Crop Certification) were inexplicably overcharged. This means that some Department programs (and consequently, some program users) paid more than their fair share of the cost of providing services while others paid less.

The previous table illustrates another effect of the Department's current indirect cost allocation practices**S**i.e., a hidden general fund subsidy. As shown in the Description Chapter, about a third of the Department's total funding comes from the General Fund. If the Department were wholly cash-funded, it would have no other choice but to allocate all of its overhead costs among its programs. Since the Department receives some general funding, however, it can use this money to "fill in the gaps," including gaps that may result from undercharging a program its fair share of indirect costs. In Fiscal Year 2000 "filling in the gap" meant that state taxpayers paid $40,640 in program costs which should have been paid by fees collected from users of the Department's programs.

The Department should review its current practices for allocating indirect costs to ensure they are fair, reasonable, and consistently applied. Further, it should retain adequate supporting documentation of its cost allocation methods as required by State Fiscal Rules.

Recommendation No. 8:

The Department of Agriculture should ensure its indirect cost allocation methodology is fair, reasonable, and consistently applied to all applicable programs. In addition, the Department should comply with State Fiscal Rules that require state agencies to maintain adequate supporting documentation of their cost allocation methodologies.

Department of Agriculture Response:

Agree. The Department will develop an indirect cost allocation program. The Department will calculate a per FTE cost with an adjustment for statutory indirect cost caps. The Department will maintain adequate supporting documentation of its indirect cost allocations.

Five Programs Have Statutory Indirect Cost Caps

As stated previously, five of the Department's programs have statutory indirect cost caps. Each of these caps is explained in more detail below:

C **Alternative Livestock and Brand Inspection.** Indirect costs for these programs are limited to 3.6 percent of base appropriations or actual costs, whichever is less.

- **Organic Certification and Chemigation.** Indirect costs for these programs are based on the number of FTE authorized in the Long Bill for each program, expressed as a percentage of the total FTE in the Department.

- **Mandatory Fruit and Vegetable Inspection.** Indirect costs for this program are limited to 5 percent of the funds appropriated by the General Assembly. It should be noted that the Mandatory Fruit and Vegetable Inspection Program currently applies to only one commodity (potatoes). All other fruit and vegetable inspections conducted by the Department are administered under the Nonmandatory Fruit and Vegetable Inspection Program. This program has no statutory indirect cost cap.

In our 1994 performance audit we recommended that the Department work with the General Assembly to determine whether the statutory indirect cost caps that existed then should be retained. The Department disagreed with this recommendation and, accordingly, has not sought any statutory changes.

Once again, we are recommending that the Department work with the General Assembly to justify the need for these caps and seek legislative changes where they are warranted. We believe that the caps are problematic for one main reason—they increase the amount of general funding needed to run the Department. This, in turn, shifts the cost of providing certain services away from direct program users and to the general public. This raises an equity question inasmuch as it is unclear whether the average taxpayer reaps any distinct benefits from the existence of some of the capped programs (e.g., Brand Inspection, Alternative Livestock, Mandatory Fruit and Vegetable Inspection, in particular). For example, the main benefit provided by the Brand Inspection Program is protecting the property rights of livestock owners—a benefit that mostly accrues to a particular group and not to the average taxpayer. In a time when revenue limitations are seriously restricting the amount of general funding available to fund state programs, there may be more worthwhile uses for these dollars. The following table shows the effect of removing the caps using the Department's current indirect cost allocation methodology:

Comparison of Actual Indirect Costs Charged to Department Programs With Statutory Indirect Cost Caps vs. Costs Indicated by the Department's Cost Allocation Methodology			
Program	**FTE**	**Actual Indirect Costs Charged (FY 2000)**	**Amount Chargeable Using the Current Methodology if No Indirect Cost Cap Existed**
Mandatory Fruit & Vegetable Inspection	35.1	$ 82,835	$243,770
Chemigation	3.5	1,869	24,308
Organic Certification	1	90	6,945
Brand Inspection/Alternative Livestock	63.2	101,060	438,924
Total	**102.8**	**$185,854**	**$713,947**
Source: Office of the State Auditor analysis of Department data.			

The difference between the two final columns ($528,093) is the amount of the general fund subsidy that accrued to these programs in Fiscal Year 2000 from the existence of the statutory indirect cost caps. This amount of funding is significant. In fact, it represents about 6.4 percent of all the Department's general fund spending for Fiscal Year 2000.

Removing the Caps Could Result in Some Fee Increases

Removing the statutory indirect cost caps could result in some fee increases as programs are forced to cover all of their direct and indirect operating costs. For example, eliminating the cap for the Mandatory Fruit and Vegetable Inspection Program would increase inspection fees by a little less than 1 cent per hundredweight. However, we do not believe that all programs would be required to increase fees**S**at least not immediately. This is because three of the capped programs currently have excess uncommitted reserves in their cash funds (e.g., Alternative Livestock, Mandatory Fruit and Vegetable Inspection, and Chemigation). These excess funds could be used to cover some of the cost increase associated with removing an indirect cost cap. Indeed, the existence of excess cash reserves in these programs causes us to further question the need for the caps in the first place.

It Is Impossible to Easily Assess Compliance With One Existing Cap

We also noted that the wording of one of the existing caps makes it impossible to determine whether the Department is even applying it appropriately. As stated previously, statutes limit indirect costs for the Mandatory Fruit and Vegetable Inspection Program to 5 percent of the funds appropriated by the General Assembly. We could not determine whether this cap was being applied correctly, because the funds appropriated for this program are included in the Department's Agricultural Services line item. This line item covers operations in three divisions and, therefore, numerous programs. Even if the Department and the General Assembly decide to retain this cap, the statute creating it should be modified so that the amount of indirect costs that should be charged to this program is clear. We would suggest rewording the statute so that the indirect cost cap is based on program FTE, not appropriations (i.e., similar to the statutory wording for the caps on the Chemigation and Organic Certification Programs).

Recommendation No. 9:

The Department of Agriculture should work with the General Assembly to assess the general benefit derived from maintaining statutory indirect cost caps in the Brand Inspection, Alternative Livestock, Chemigation, Organic Certification, and Mandatory Fruit and Vegetable Inspection Programs, and then seek statutory changes accordingly. Any caps that are retained in statute should be worded so that compliance can be easily determined.

Department of Agriculture Response:

Disagree. The indirect cost caps were specifically put in statute by the General Assembly for the benefit of these programs and these caps are adhered to with the full knowledge of the Joint Budget Committee during our annual budget submission. In addition, these programs largely support economically depressed parts of the agricultural industry; significant increases in fees to raise indirect costs would jeopardize the programs and the benefits they bring to Colorado's agriculture.

Auditor's Addendum

The budgetary constraints that existed at the time these indirect cost caps were enacted are markedly different from the ones that exist now (e.g., TABOR, Amendment 23). In addition, the agricultural industry is not static and as such, the conditions that engendered these subsidies may no longer be present. In recent years revenues have been exceeding expenditures in some of the capped programs, contradicting the Department's assertion that the caps exist in programs which service economically depressed sectors of Colorado's agricultural industry and/or programs that are currently unable to absorb fee increases. Further, as we discuss earlier in Chapter 2, the Department does not routinely analyze the fee structures of many of its programs, including some of the programs at issue here. Therefore, we believe it is premature to make conclusions about the fee-related consequences of eliminating the caps.

The Department's Methodology for Allocating Personal Services Costs Needs Improvement

In addition to developing a reasonable methodology for allocating indirect costs, the Department has the responsibility for ensuring that *direct* costs (e.g., personal services costs) are accurately allocated to the appropriate programs. The Department uses two main tools to ensure that direct costs are allocated as they should be: a timekeeping system and the State's accounting system.

As mentioned previously, the Department uses a multiple inspection approach in two of its divisions**S**Plant Industry and ICS. Because most of the programs in Plant Industry are cash-funded, multiple inspectors in this division must complete time sheets to record the time they spend working on various programs. Time sheets are then input into a computer program which automatically calculates the amount of personal services costs that should be allocated to each program. Timekeeping is also important in ICS, although to a lesser extent than Plant Industry. This is because ICS multiple inspectors work on mostly general-funded programs.

In our 1994 performance audit we found several problems with the way the Department was allocating direct costs among its Plant Industry programs. In particular, we found that some supervisory costs were being allocated in a manner that did not reflect how managers were actually spending their time. Our follow-up audit work shows that this is still happening, and in fact, additional direct cost allocation problems are now apparent. Specifically, staff are now using what they call a "home base" system to allocate both supervisory and employee leave costs. Under this system, each employee has a designated "home base," which represents the program area where that employee supposedly spends the majority of his or her time. All of the personal services costs for the Division of Plant Industry's three supervisors are allocated using this method. As such, all of the personal services costs for these employees are charged entirely to just three program areas, even though these individuals manage several additional programs. To more accurately allocate supervisory costs, the Department should require managers to keep track of the time they spend on various programs (at least broadly). This information could then be used to distribute costs in a more accurate manner.

The "home base" system is also used to allocate employee leave, which is also considered to be a direct program cost. The problem with this approach is that some employees work on so many different programs that charging all of their leave to one "home base" (i.e., one program) results in excessive allocation of direct costs to that program. For example, upon reviewing Fiscal Year 1999 and 2000 employee time records, we observed that one particular employee spent only about 19 percent of his time on the nursery program, even though the nursery program was this employee's designated "home base." Consequently, allocating all of this employee's leave costs to this "home base" resulted in an unfair allocation of personal services costs to the nursery program. Authoritative guidance on the issue of cost allocation states that agencies should allocate the cost of fringe benefits, including regular compensation paid to employees during periods of authorized absences from the job (e.g., annual leave, sick leave, holidays), equitably among *all* related activities. The Department should modify its approach for allocating employee leave costs to reflect this principle.

Recommendation No. 10:

The Department of Agriculture should ensure that its methods for allocating personal services costs to its cash-funded programs are both reasonable and accurate. Any methodology the Department adopts should ensure both supervisory and employee leave costs are allocated equitably among all related activities and in a manner which accurately reflects how staff actually spend their time.

Department of Agriculture Response:

Partially agree. Department managers will allocate their time on a quarterly basis. All employees are home-based to different programs. Every program has expense for leave and balances out by year-end because all employees use leave during the year.

Senate Bill 98-194 Requires State Agencies to Eliminate Excess Uncommitted Reserves

In order to create a mechanism to assist the State in complying with the limitations on fiscal year spending that are established by Article X, Section 20 of the Colorado Constitution (TABOR), the General Assembly enacted Senate Bill 98-194. This Act establishes a limit on the amount of reserves that state agencies can maintain in their cash funds. Generally, the reserve limit is equal to 16.5 percent of the total expenditures that occurred during the fiscal year in each cash fund. If this reserve limit is exceeded, agencies are required to eliminate excess funding by reducing revenue (e.g., lowering fees) or by increasing spending.

To monitor compliance with Senate Bill 98-194, the Office of State Planning and Budgeting, in conjunction with the Joint Budget Committee, requires state agencies to submit a Schedule 11 (Excess Cash Reserve Plan) with their budget requests. These plans provide information on the revenues and expenditures associated with each cash fund and present agency plans for reducing excess reserves. As part of our audit we reviewed the Department's Excess Cash Reserve Plans to determine their reasonableness and effectiveness in eliminating excess uncommitted reserves. At the close of Fiscal Year 2000, the Department had five cash funds with excess uncommitted reserves. They were the Alternative Livestock Farm Fund, the Chemigation Fund, the Colorado Nursery Fund, the Groundwater Protection Fund, and the Mandatory Fruit and Vegetable Inspection Fund. The excess uncommitted reserves in these funds totaled $498,790 at Fiscal Year-End 2000. Although this is only about 6 percent of the cash funding that the Department spent in Fiscal Year 2000, compliance with Senate Bill 98-194 is not optional. Therefore, it is important for the Department to compile reasonable and effective plans to eliminate excess uncommitted reserves in cash funds where excess reserves exist.

Plans for Eliminating Excess Cash Reserves Are Not Always Effective

Our review showed that although the Department's Excess Cash Reserve Plans are generally reasonable, some plans have not been particularly effective. For example, the excess uncommitted reserves in the Alternative Livestock Farm Fund and, to a lesser extent, the Colorado Nursery Fund, have been consistently rising since the passage of Senate Bill 98-194. If the Department's plans to reduce excess funding in these cash funds were having the desired effect, the opposite should be true. The Department should more closely monitor the success of its Excess Cash Reserve Plans to ensure they are having the desired effect.

Recommendation No. 11:

The Department of Agriculture should ensure that its Excess Cash Reserve Plans are both reasonable and effective, given the circumstances applicable to each cash fund.

Department of Agriculture Response:

Agree. The Department will continue to evaluate fees annually. The Department requested a Fiscal Year 2002 Decision Item and a Fiscal Year 2001 supplemental for Alternative Livestock because of the exponential growth in the Alternative Livestock Program since 1994. The supplemental was not recommended by OSPB.

Some of the Department's Travel Expenses Are Paid by Outside Organizations

During the audit Department managers provided us with evidence that two nonprofit organizations routinely pay for some of the international travel expenses incurred by staff in the Agricultural Markets Division (e.g., airfare and other costs associated with travel to Japan, Mexico, and Europe to attend agricultural trade shows and develop trade relationships). These nonprofit organizations—WUSATA (Western United States Agricultural Trade Association) and USLGE (United States Livestock Genetics Export, Inc.)—are agricultural trade associations that specialize in international trade development and marketing. None of the monetary transactions associated with this arrangement have ever been recorded on the State's accounting system (i.e., travel costs were paid directly by the outside organizations).

By not properly accounting for these transactions, the Department has understated both its expenditures and revenue for several years. As shown in the following table, the State's accounting system shows only a fraction of the total expenditures the Department actually made for international travel in the last four fiscal years:

Department of Agriculture
International Travel Expenditures
Fiscal Years 1997-2000

Fiscal Year	WUSATA/USLGE-Funded Expenditures	International Travel Expenditures (COFRS)
1997	$3,148	$564
1998	$3,930	$0
1999	$6,632	$2,705
2000	$16,794	$597
TOTAL	**$30,504**	**$3,866**

Source: Office of the State Auditor analysis of data obtained from the Agricultural Markets Division and COFRS.

This Arrangement Violates Statutes and State Fiscal Rules

Statutes state that the Department's duties include extending "in every practicable way the distribution and sale of Colorado agricultural products throughout the markets of the world" and taking "charge of the exhibition of Colorado agricultural products at international or national expositions." Consequently, traveling to foreign countries to promote Colorado agriculture is within the bounds of the Department's statutory mission. Even so, State Fiscal Rules require agencies to use the State's financial system (COFRS) to record their financial transactions. By not recording the revenue and expenditures associated with this arrangement, the Department is violating those rules. We also observed that if the Department had properly recorded the transactions associated with

WUSATA/USLGE-funded travel expenditures in Fiscal Year 2000, it would have overexpended its operating line item for the Agricultural Markets Division by $924. This is also a violation of state law unless the State Controller's Office and the Governor approve the overexpenditure, which did not occur in this case.

Department managers have defended their practice of obtaining outside funding for international travel expenses as a practical way to keep the State's travel costs low. Although this may be true, the Department's method for handling this situation ignores state fiscal rules and generally accepted accounting principles and has even resulted in a violation of state law. Further, at a time when governmental travel costs are receiving intense scrutiny, keeping this arrangement "off the books" also precludes decision makers from being able to monitor the entirety of state travel expenditures. Consequently, the Department should work with the appropriate legislative and executive agencies (e.g., Office of State Planning and Budgeting, the Joint Budget Committee, and the State Controller's Office) to properly budget and account for the financial transactions associated with this arrangement.

Recommendation No. 12:

The Department of Agriculture should work with the Office of State Planning and Budgeting, the Joint Budget Committee, and the State Controller's Office to obtain proper spending authority for all of its travel-related expenditures and to ensure associated accounting transactions are handled correctly.

Department of Agriculture Response:

Implemented. The Department will record all federal funds in proper grant line spending authority. Expenses and revenue will be recorded into proper accounts. Implemented March 31, 2001.

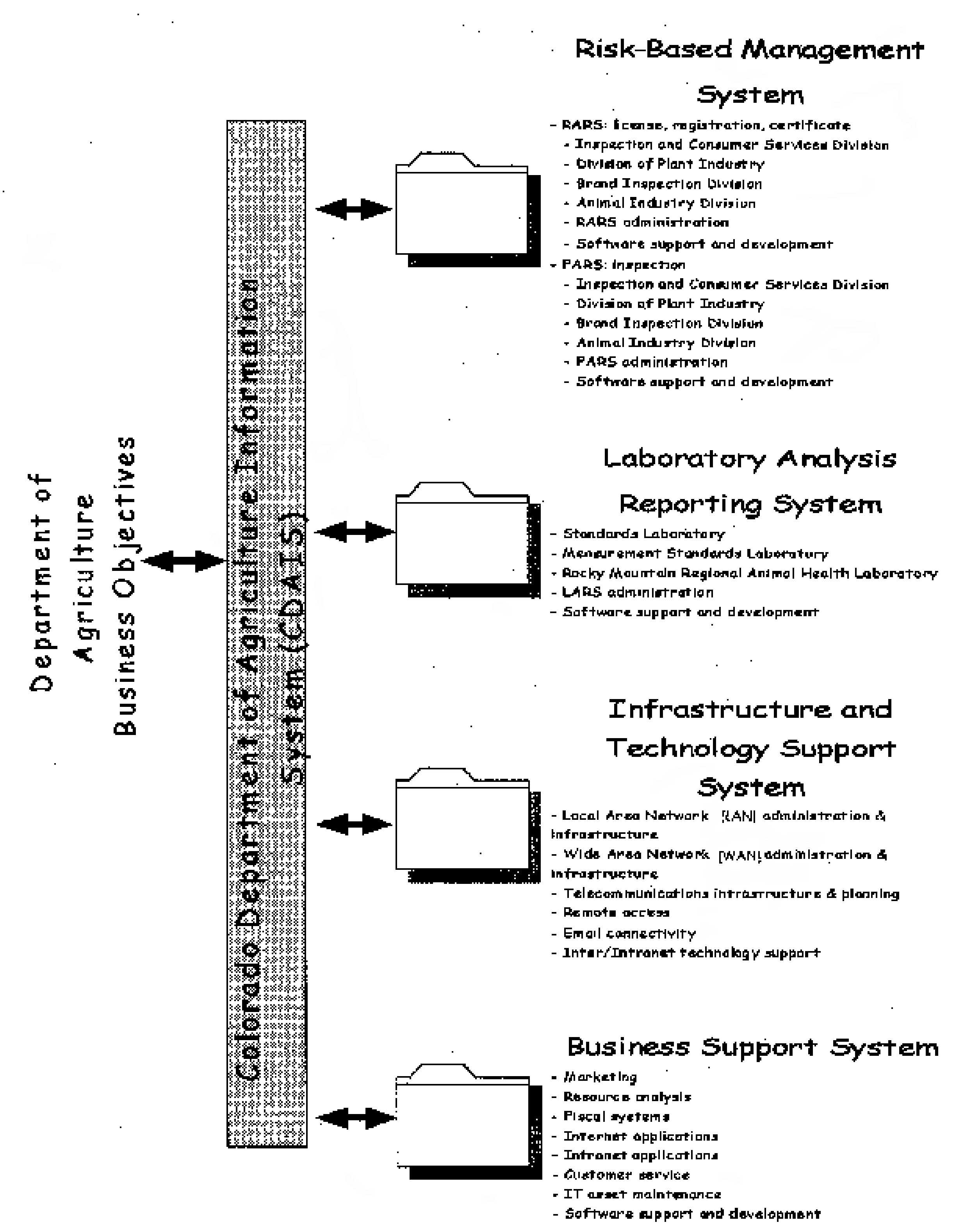
Information Technology

Chapter 3

Overview

The Department's Information Technology (IT) Section is charged with planning, designing, managing, maintaining, and providing user support for all of the Department's information systems. The Section currently employs 4 FTE, which include a Chief Information Officer and three programmer/analysts. As of Fiscal Year-End 2000, the Department had 196 computers, mostly consisting of desktop units (70 percent). All of the Department's computers, including those found at auxiliary offices around the State, are connected via a LAN/WAN or through remote (dial-up) access.

Until recently the Department took a fairly conservative stance on acquiring and using technology to support its operations. In Fiscal Year 1997, however, the Department began a large IT venture known as the Enterprise-Wide Systems Integration project. The goal of this project is to integrate all of the Department's licensing, registration, and reporting subsystems and databases to form one system, which will be known as the Colorado Department of Agriculture Information System (CDAIS). The major components of CDAIS are shown in the following exhibit:



Source: Department of Agriculture.

At the time of our audit, major portions of the CDAIS project remained incomplete, including the following CDAIS subsystems/components, which were still either in the planning or programming stage:

- All components of the field activity reporting system (FARS) except those related to the Division of Inspection and Consumer Services (ICS).

- Some parts of the licensing, registration, and certificate system (e.g., subsystems for the Divisions of Plant Industry, Brand Inspection, and Animal Industry).

- Two of the laboratory subsystems (i.e., the Measurement Standards Laboratory and Rocky Mountain Regional Animal Health Laboratory subsystems).

- All of the business support system.

Given the progress to date, we believe that the CDAIS project will be finished sometime in Fiscal Year 2004 at a total cost of approximately $3.4 million.

Implementation of CDAIS Should Improve Efficiency at the Department

The objective that is driving implementation of CDAIS—departmentwide integration of all licensing, registration, and reporting subsystems and databases—is a worthy one. Currently the Department uses a hodgepodge of stand-alone systems and databases to support its operations, all with differing levels of sophistication and functionality. Many of these systems fall seriously short in terms of promoting operational efficiency, providing good customer service, or meeting internal user needs. Consequently, if the implementation of CDAIS is handled carefully and thoughtfully, marked operational efficiencies should result.

As we reviewed the Department's efforts toward implementing CDAIS, however, we noted several areas for improvement. Specifically, we found that the Department needs to improve overall project planning and management, correct problems in some CDAIS subsystems which have already been completed, and enhance user input regarding the design of system components which are still in the planning phase. Attending to these problems before CDAIS is fully implemented is vital to ensure a final product that fulfills management expectations and meets user needs. Further, the Department has already spent about $2.3 million on CDAIS and we estimate that another $1.1 million will be needed to complete the project (at a minimum). In order to ensure these dollars are well spent, the Department needs to make the improvements we outline here.

Overall Project Planning and Management Needs Improvement

During the audit we found that the Department does not have an accurate, up-to-date plan which describes the status of its major IT projects, including CDAIS. Inadequate planning and management of the CDAIS project has resulted in several problems for the Department, some of which are explained later in this chapter. The document that best describes the status of the Department's computer projects is the Information Technology (IT) Plan. The Department is required to submit this document to the Information Management Commission (IMC) each year as part of the budget request process. Even though the Department's IT Plan meets the IMC's basic requirements, we found it lacks key information in a number of areas specific to CDAIS, which is really the only major IT project currently under way at the Department. For instance, we found that the current IT Plan does not present an accurate, detailed account of the tasks which are now complete on the CDAIS project and those which still need to be undertaken to finish the system. The Plan also does not provide an up-to-date timeline showing when the remaining portions of CDAIS will be completed, nor does it estimate the resources that will be needed to finish the portions of the system which are still in the planning stage.

Although the Department's more recent IT plans are an improvement over past plans, we believe that further refinements (e.g., more accurate timelines and cost estimates for project completion) are needed to ensure that decision makers have accurate information about the status of the Department's key IT projects and, in particular, CDAIS.

Completed Subsystems Do Not Function As Planned

We also found that some of the subsystems within CDAIS which are supposedly completed have problems which must be resolved before the system can function as intended. These problems might have been avoided through better planning and management of the CDAIS project. Problems include:

- **The ICS Field Activity Reporting System (FARS):** This subsystem is now operational but lacks the components necessary to make it fully functional for management purposes. The FARS module allows ICS multiple inspectors to use a remote computer connection to electronically record and transmit their inspection results directly from the field to a centralized database. Even though the FARS database houses a great deal of information that would be useful for ICS managers, staff have not been shown how to manipulate the data within the system and use it to create management reports. Two ICS managers told us that they each spend about a day a week compiling inspection data on stand-alone spreadsheets to get the management information they need, even though this information already resides within the FARS database. This is a waste of resources that could be easily eliminated if the Department purchased off-the-shelf reporting software that could interface with FARS and then trained managers in its use.

- **The subsystem within ICS FARS that was created to track the results of meat processing facility inspections:** This subsystem is also functional but does not meet user needs. The Department is responsible for inspecting certain types of meat processing facilities under a cooperative agreement with USDA. This agreement requires the Department to use specific inspection approaches and forms and to track data in a specific manner. The USDA requirements were not shared with the programmers when this system was designed. Consequently, staff cannot compile and track inspection results according to their needs, which are not particularly flexible given the agreement with USDA. As a result, ICS managers use stand-alone spreadsheets to compile and track data**S**a process that wastes resources. Additional programming will be needed to address this problem.

The Department should formally review the progress it has made to date on CDAIS so that it can identify system components that do not function as planned and/or do not meet user needs. Once all problem areas have been identified, the Department should develop and implement a plan for correcting the deficiencies prior to system completion.

User Input Should Be Enhanced

We also found that there is no formalized way for users to communicate with staff in the IT Section regarding the design and implementation of IT projects. Currently user input is gathered on an informal basis by the Chief Information Officer. This process does not appear to be highly effective, given some of the problems that the Department has encountered implementing CDAIS. For example, more collaboration and communication with ICS staff could have helped the Department avoid the problems now apparent with FARS and the system for tracking meat processing facility inspection data.

On several occasions the IMC suggested that the Department formally establish an IT steering committee, but the Department has yet to do so. We agree that forming a permanent IT steering committee and staffing it appropriately should help ensure adequate user input in the design, implementation, and maintenance of the Department's IT projects.

Recommendation No. 13:

The Department of Agriculture should improve its information technology planning process by ensuring that the plans it prepares annually for the Information Management Commission include accurate and complete information about the status of all key projects, including the Colorado Department of Agriculture Information System (CDAIS).

Department of Agriculture Response:

Agree. With the increased demand in software development projects, increased maintenance and security issues, and the overall movement of improving the infrastructure within the Department, it has been difficult to support these efforts. Over 200 technology users (computer users) exist today, with only 4 FTE to support these and new and emerging projects which are now being driven by a new economy via the Internet. Customer expectations for improved service delivery from government have increased. We estimate it will take six to nine months to develop and improve planning and reporting processes.

Recommendation No. 14:

The Department of Agriculture should formally review its progress to date on the CDAIS project, identify system components that do not function as planned and/or do not meet user needs, and then develop and implement a plan for correcting the identified deficiencies.

Department of Agriculture Response:

Agree. A better job could be done in this area but the Department recognizes that with the workload presently found in the IT Section and increasing customer demands, project management could be improved. The Department recognizes that efforts have been made in this area by establishing performance measures with all IT staff in collaborating with project management duties (.7 FTE combined). It needs to be noted that no FTE had direct project management responsibilities prior to the hiring of the IT Manager. We estimate that six to nine months will be needed to enhance planning for all system development projects, depending on current workload established by the CIO.

Recommendation No. 15:

The Department of Agriculture should formally establish an information technology steering committee and staff it to ensure appropriate user input in the design, implementation, and maintenance of its major information technology projects.

Department of Agriculture Response:

Partially agree. Communications efforts for senior managers and the IT staff have improved significantly since the arrival of the IT Manager. Significant efforts have been made to ensure collaboration, customer service, and product delivery improvement when new systems development projects begin. Subject matter experts (SME) have been used consistently for all software development projects since the fall of 1998. We estimate that six to nine months will be needed to enhance planning for all systems development projects, depending on current workload established by the CIO.

Some Work Performed by Contractors Has Been Substandard

Throughout the implementation of CDAIS, the Department has used contractors to perform some of the programming and other tasks needed on the project. Although the use of contractors has been necessary because of the sheer size of the project and the relatively small number of IT staff at the Department, problems have resulted. For example:

- **Early work done by contractors on the Risk-Based Management System was unsatisfactory and had to be fixed at Department expense.** The Department paid two contractors $530,000 for their work on this system and ended up with a product that did not function as planned. We could not estimate the amount of staff time and other resources that were needed to correct this problem because of inadequate documentation.

- **The field activity reporting system (FARS) for the Division of Plant Industry has been programmed, but staff still cannot access it because of delays caused by contractual problems.** Department managers expected this subsystem to be fully implemented by the end of Fiscal Year 2000. Due to the absence of a specific contract stipulation, however, the contractor**S**not the Department**S**actually owned the coding associated with the completed subsystem. This problem has since been resolved but still caused a significant delay in deploying this part of CDAIS.

• **The subsystem created to manage licensing, inspection, and enforcement activities for the Pet Care Facilities Program needs extensive reworking.** This CDAIS subsystem was expected to be finished by the end of Fiscal Year 2000 but was still not operational as of December 2000 due to programming problems. Specifically, prior to completing the coding for this system, the contractor hired to do the job realized that the programming was of poor quality. Even though the contractor is now in the process of redoing his work at no additional cost to the State, this situation has been costly in terms of deployment delays.

Lax Oversight Contributed to the Problems

The problems that the Department has experienced with its IT contractors could have been avoided through improved oversight. For example, the functionality problems with the Risk-Based Management System were chiefly the result of the Department allowing contractors to self-monitor their work. Other factors, including poorly worded contracts and substandard processes for periodically checking the quality of deliverables, also contributed to problems we observed.

It appears that the Department has recently made some improvements to its methods for monitoring IT contractors. For example, since the Department created and filled a Chief Information Officer (CIO) position in late 1998, job descriptions for IT Section staff have been rewritten and .7 FTE has been formally assigned project management/contract oversight duties. Prior to this change, no one in the IT Section had formal responsibility for contract oversight. In addition, the Department has made some improvements to the wording of its contracts so that it can avoid legal problems like the one described previously. Even with these improvements, however, more should be done to ensure contractors are adequately monitored. For example, the Department should:

C **Become more actively involved with ensuring the quality of deliverables throughout the contract period.** Contractors should be held accountable to measurable objectives throughout the life of a project, not just at the end when it may be too late to identify and correct problems. The Department can help ensure quality deliverables by holding more frequent status meetings with contractors and, whenever possible, conducting more extensive testing and review at strategic points during the systems development process.

- **Develop and utilize a standard set of forms and procedures for dealing with contractors.** For instance, we found that the Department does not have standardized forms or processes for signing off on deliverables, documenting its discussions with contractors, or monitoring the attainment of milestones. Increasing the standardization of these activities and others can help the Department ensure consistent and adequate oversight of its IT contractors in the future.

Recommendation No. 16:

The Department of Agriculture should improve its processes for overseeing information technology contractors by more actively monitoring the work of contractors throughout the contract period. The Department should also identify processes and forms that it can standardize to help ensure a more consistent monitoring approach.

Department of Agriculture Response:

Agree. When partnering engagements with government and vendors exist, the Department agrees that close collaboration and oversight must exist in monitoring any technology projects where funds are expended. The Department has improved this area greatly and will continue to monitor such engagements in the future. This area requires the IT personnel to formally engage with all IT contractors; therefore, this would be an ongoing process with no formal completion date other than the date of project completion.

Improved Record Keeping and Cross-Training Are Needed

During our review of the CDAIS project we also noted that, in general, the Department's record keeping related to contracts and contractors needs improvement. For example, we had problems determining the role that contractors played in the design and implementation of CDAIS because many CDAIS-related contracts and records were either missing or incomplete. We also had a lot of difficulty calculating how much the Department spent on CDAIS-related contractors because of poor record keeping. Finally, in many cases, insufficient documentation made it difficult for us to determine whether the Department had adequately monitored its IT contractors.

Traditionally, only one employee has been responsible for performing most of the contract-related functions and activities within the Department. The two employees who held this position most recently both experienced serious health problems, leaving no one at the Department with adequate understanding of this employee’s day-to-day duties and responsibilities. Further, there are no written procedures detailing the specific responsibilities of the Department's contracts officer, and no one has been adequately cross-trained to perform his or her duties should this employee become incapacitated or leave altogether. Developing written policies and procedures and cross-training additional staff in basic contracting functions will help ensure the smooth operation of the Department's contracting activities in the future.

Recommendation No. 17:

The Department of Agriculture should develop formal, written policies and procedures and provide appropriate cross-training to staff in carrying out its various contract-related functions and activities. The Department should also improve its record keeping related to the contracting function.

Department of Agriculture Response:

Agree. The Department will develop written policies and procedures and provide appropriate cross-training for various contract-related functions.

Program Modernization

Chapter 4

Overview

During the audit we identified four programs at the Department of Agriculture that were in need of considerable changes in terms of their program structure and/or their funding arrangements. The programs are the Brand Inspection, Rodent Control, Predatory Animal Control, and Mandatory Fruit and Vegetable Inspection Programs. Many of the problems apparent in these programs have been long-standing. Further, some of these issues have been previously brought to the attention of Department managers but have yet to be addressed. For example, certain problems with the Rodent Control, Predatory Animal Control, and Mandatory Fruit and Vegetable Inspection Programs were previously identified in our 1994 performance audit of the Department. Even though the Department generally agreed with most of these recommendations, they remain largely unaddressed, and consequently, the problems we identified at that time persist. The following sections provide more detail on the changes that are now needed in these programs, as well as more on the Brand Inspection Program.

Brand Inspection Helps Protect the Property Rights of Livestock Owners

The primary mission of the Department's Brand Inspection Program is to ensure proper ownership of cattle, horses, and other livestock. Brand inspections also provide an opportunity to check on the health of animals, although this is a secondary objective. The Brand Inspection Program is administered by the State Board of Stock Inspection. In Fiscal Year 2000 the program employed about 63 FTE and spent about $3 million (all in cash funds).

Brand inspection has a long history in the State, beginning in the 1860s when Colorado was still a territory. Brands must be registered every five years; inspections occur upon demand. There are currently about 36,600 brands recorded in the State. Inspections are required in a number of circumstances that can be separated into two main categories**S**point of origin or destination. Point-of-origin inspections include those that occur when livestock is slated for sale, shipped out of state, moved over 75 miles for grazing or feeding purposes, or moved into a feedlot from pasture or grazing. Destination inspections include those that occur at feedlots, livestock markets (sale barns), and slaughterhouses. In Fiscal Year 2000 approximately 5.2 million inspections were conducted by brand inspectors.

The Brand Inspection Program Has Changed Little Since Inception

Colorado's Brand Inspection Program has remained largely unchanged for decades. In fact, many of the program's day-to-day activities are still conducted much as they were when the program started over 100 years ago. As a result of our audit, we believe that it is time to reassess several aspects of the Brand Inspection Program, including its general scope and mission. The following narrative provides more detail on each of the areas where we believe modernization or other changes are needed.

States Use a Variety of Approaches Regarding Brand Inspections

The first step in our review was developing an understanding of how Colorado's brand inspection program compares with other states' programs. Accordingly, we contacted the seven states contiguous to Colorado to obtain information about how they run their brand inspection programs. We found that three of these states operate programs fairly similar to Colorado's in terms of their size and scope (Arizona, New Mexico, and Wyoming). More specifically, these three states have statewide inspection requirements, and further, the circumstances triggering an inspection in these states (e.g., sale, transport) are similar to the circumstances that would trigger an inspection in Colorado. The remaining states (Kansas, Nebraska, Oklahoma, and Utah) run brand inspection programs that differ in key ways from Colorado's, particularly when it comes to program scope. Key differences are shown in the following table:

Key Differences Between Colorado's Brand Inspection Program and Programs in Selected Surrounding States

State	**Key Program Differences**
Kansas	Inspection is required in only three counties and limited circumstances (e.g., sale, movement from the brand inspection area). All brand inspectors are contract employees.
Nebraska	Brand inspection is required in only the western part of the state.
Oklahoma	Brand inspection is not mandatory anywhere in the state. Brand registration is voluntary.
Utah	Inspection is limited to only three circumstances (i.e., ownership change, slaughter, and prior to leaving the state).

Source: Office of the State Auditor analysis.

As the table shows, each of these states' brand inspection programs is more limited than Colorado's, either in terms of the geographic region or the specific situation where an inspection is required. Indeed, Oklahoma has the most limited program of all the states we contacted—requiring neither brand registration nor brand inspections. Officials there told us that no ill effects have resulted from the absence of a state-run brand inspection program in their state.

The information we obtained from our review of other states' brand inspection programs led us to question the scope and structure of Colorado's program. Limiting the scope of Colorado's brand inspection program could have several benefits. First, a more limited program would save money for the livestock industry because fewer inspections would be required, thus reducing the fee burden on individual producers. Limiting program scope would also reduce program operating costs, since fewer inspectors would be needed. We noted that Colorado currently has more full-time equivalent brand inspectors (55) than all other surrounding states with the exception of Wyoming, which has 58. We also observed that many of Colorado's brand inspectors are already eligible for retirement or nearing eligibility. Specifically, 23 brand inspectors already have 20 or more years of state service. Of these, nine inspectors have 25 or more years of state service and six have over 30 years. This situation provides a unique opportunity for the Division to consider significant changes to the scope of its operations, including whether current staffing levels make sense for the future.

It appears that the main negative effect that could occur from limiting program scope would be an increase in the incidence of cattle theft (deterring cattle theft is a primary objective of the inspection program). The most recent USDA statistics on this subject (1995) show that Colorado reported theft losses of about 500 head of cattle and calves that year. These same statistics show that an average of about 700 head of cattle and calves were lost as a result of theft in surrounding states with more limited inspection programs (Kansas, Nebraska, Oklahoma, Utah). These differences do not seem to be particularly significant given the considerable differences in the scope of Colorado's inspection program as compared with the inspection programs in these other states.

Colorado's Brand Inspection Program Has the Potential for Duplication

A secondary issue related to program scope became apparent as a result of our review. We found that Colorado's brand inspection program**S**which requires both point-of-origin inspections and destination inspections in several circumstances**S**has the potential for duplication (i.e., the same animal might be inspected more than once while being readied or transported for sale or slaughter). A June 2000 performance audit of Arizona's brand inspection program noted a similar finding and recommended eliminating certain point-of-origin inspections.

We could not quantify the number of potentially duplicative inspections that actually occur in Colorado because the Brand Inspection Program does not keep statistics on the reasons why inspections are conducted (e.g., sale versus transport). Eliminating certain point-of-origin inspections, however, could lower travel costs for the Division, since these inspections are the ones that require the most travel. Again, because of insufficient data, we could not quantify the savings that might result from eliminating certain types of inspections.

Use of Technology Could Be Vastly Improved

We also observed that the day-to-day operations and activities of the Brand Inspection Program are in serious need of modernization. Antiquated, manual record keeping systems are the rule rather than the exception in this program. For example, inspectors do not have individually assigned computers to help them carry out their day-to-day responsibilities. In fact, the entire Division only has seven desktops and one laptop computer at its disposal. The lack of automation means that most of the Division's activities are still performed manually (e.g., inspection forms are filled out by hand) and computerized record keeping is virtually nonexistent.

From our discussions with staff in other states, we found that most other brand inspection programs are not utilizing technology any better than Colorado is utilizing it. Even so, the improvements in customer service, as well as the other efficiencies that can be realized through better use of technology, are significant and, therefore, should be pursued whenever feasible.

Government Intervention May No Longer Be Needed in This Area

Lastly, we believe it is time that the Department, the State Board of Stock Inspection, and the General Assembly work with the livestock industry to consider whether government intervention is truly needed in this area. Colorado's brand inspection program was created at a time when there were few governmental agencies and only crude technology available to help livestock owners protect their property**S**which is really the core function of the program. It is no longer clear why a state agency is needed to provide this service in today's environment. The livestock industry could just as easily self-regulate and work with local law enforcement officials to address theft issues or ownership disputes as they arise. Indeed, we question whether theft and ownership problems are pervasive enough to warrant the size, scope, and expense of Colorado's Brand Inspection Program. Specifically, the Brand Inspection Program reports that 82,777 head of livestock were returned to their proper owners as a result inspector efforts in Fiscal Year 2000. This means that only 1.6 percent of all inspections conducted that year (5,207,281) resulted in some type of ownership change. Further, only 437 head of livestock were reported by the Division as lost or stolen in Fiscal Year 2000. This number is also small in comparison with the number of livestock inspected.

It is also noted that the Brand Inspection Program is not truly self-supporting, because its operations are subsidized through the existence of a statutory indirect cost cap. We calculated that this subsidy was equal to about $338,000 in Fiscal Year 2000. We are unsure why this operating subsidy is needed and, further, why it is appropriate given the narrow purpose of the program. More information about this issue can be found in Chapter 2.

Finally, just because this program is mostly self-supporting does not exempt it from periodic scrutiny. The existence of all government programs should be questioned from time to time, regardless of their funding source. In addition, because the revenue for this program is included in the TABOR base, eliminating this program as a governmental function would create in excess of $3 million of revenue "headroom" that could be used for other, perhaps higher-priority, state activities.

A Variety of Program Changes Should Be Considered

These issues led us to conclude that the Department and the State Board of Stock Inspection need to work with the livestock industry to review the scope and operations of the Brand Inspection Program. A continuum of options and approaches should be considered. These should include, but not be limited to:

- Eliminating the program as a governmental function and allowing the livestock industry to self-regulate with the help of local law enforcement. As mentioned previously, Oklahoma has a voluntary brand registration program and no mandatory inspection program whatsoever. A similar approach could be adopted in Colorado, with the cooperation of the livestock industry.

- Decreasing the geographic area of the State where inspections are required. Nebraska and Kansas use this approach. Limiting the geographic area where brand inspections are required could greatly reduce program staffing and travel costs.

- Eliminating certain inspection requirements (e.g., point-of-origin inspections), especially those that may be duplicative. One particular requirement that should be reviewed is the one mandating inspection of animals prior to moving them 75 miles or more for grazing or feeding purposes. This seems like a low-risk transaction and should be reviewed for possible elimination.

- Expanding the use of "self-inspection" programs. For example, Colorado already allows 12 "certified" feedlots to self-inspect animals upon exiting their facilities and also allows some dairies and cattle growers to self-inspect very young calves prior to sale. These programs could be expanded to cover many more low-risk, routine transactions. Arizona's self-inspection program, which grants self-inspection privileges to almost 900 feedlots, dairies, and ranching operations, could serve as a model.

- Expanding the use of technology. Major operational efficiencies, as well as improved customer service, can be realized through the prudent use of computerized data collection and reporting mechanisms. The Department should develop more detailed plans to modernize the operations of this program and work toward implementing these plans in a timely fashion.

Recommendation No. 18:

The Department of Agriculture should work with the General Assembly and the State Board of Stock Inspection to review the scope and operations of the Brand Inspection Program with the objective of eliminating responsibilities that do not add value and modernizing those that are deemed beneficial. This review should include but not be limited to the following:

- Eliminating the program as a governmental function and allowing the livestock industry to self-regulate.
- Decreasing the geographic area of the State where inspections are required.
- Eliminating certain inspection requirements (e.g., point-of-origin inspections), especially those that may be duplicative.
- Expanding the use of "self-inspection" programs.
- Expanding the use of technology.

Department of Agriculture Response:

- Disagree. The Colorado livestock industry wants to keep a good solid brand inspection program. A self-regulated system has flaws. The Wyoming Livestock Board has realized this and is converting its inspectors to state employees and away from the Wyoming cattlemen control. Colorado's State Board of Stock Inspection and the industry considered becoming an authority in 1993, and drafted legislation to that effect. It was decided that the Brand Division should be a state agency to properly protect Colorado’s livestock producers in a fair and unbiased manner.

- Disagree. The Brand Division and the producers feel that regulating only part of Colorado would weaken the entire program. Partial inspection works reasonably well in Nebraska and South Dakota because of significant differences in the type and class of livestock operations in the eastern vs. western halves of each state. Colorado does not have that geographical divergence in its livestock industry.

- Disagree. The point of origin inspection law where animals are moving over 75 miles, leaving the State, or being offered for sale is the practical inspection point. The owner or person in control is there and is required to prove ownership and sign, authorizing the sale or movement. The only place in Colorado law which may require duplicate inspection is Section 35-43-129, C.R.S., which mandates that no-brand calves be inspected at the side of their ownership-proven mothers prior to being sold at a livestock market and then inspected again at the market prior to sale. This law is necessary because if they are not inspected with their ownership-proven mothers, title to estrays may easily be lost. The reinspection at the market is necessary to verify that the same animals were, in fact, those delivered to the market. The other statutes that may demand double inspections of the same animals are Title 35, Articles 53 and 55. Article 53 demands that every horse, burro, or bovine animal be inspected prior to leaving the State. Article 55 demands that every above mentioned animal be inspected prior to being offered for sale at a market.

- Disagree. The State Board of Stock Inspection allows "self-inspection" in two areas, but believes further expansion of self-inspection programs would be detrimental to the producer. First, the no-brand calf area from dairies and feedlots is a very low-risk area because the calves must not be older than ten days and only specific individuals may sign. Second, the certified feedlot program is a low-risk area because every animal is inspected in the feedlot and in-depth audits are performed to verify compliance. At this time, these are the only areas that the Board has identified as low-risk.

- Agree. The Brand Division will continue to expand technology as spending authority, funding, and technology are available. The Brand Division has begun a program to computerize its field inspectors with laptop computers and printers and hopefully, the Division will be able to increase the use of technology in the future. Colorado is a member of the International Livestock Association, which continues to research and test the application of technology to livestock identification.

Auditor's Addendum

All governmental programs should be reviewed on a periodic basis to ensure they continue to add value; not only to their direct users, but to the citizenry as a whole. The Department provided no evidence that there has been a comprehensive review of the scope, mission, and operations of the Brand Inspection Program. Further, the Department does a disservice to Colorado's livestock industry when it summarily dismisses the usefulness of programmatic changes that could lower the fee burden for cattle producers and othersS all

without a public debate. We are not convinced there is clear evidence that the livestock industry would oppose all of the suggestions made in the audit report.

The Department Has a Duty to Control Animals That Pose a Threat to Agriculture

Statutes establish a framework for the Department, either through cooperative agreements with other agencies or individuals (e.g., boards of county commissioners, federal agencies, landowners) or through its own efforts, to control rodents and predatory animals where they may pose a threat to agricultural products or resources. The Department addresses this responsibility by providing information, training, and materials to persons who wish to control or eradicate rodents or predatory animals. The Department also provides direct control services upon request (i.e., Department staff will perform the actual eradication or control work themselves).

Department expenditures for Fiscal Year 2000 for both rodent and predatory animal control totaled approximately $142,500. All but about $8,900 of these expenditures were paid by the General Fund. The total also includes about $50,100 in general fund grants that the Department made to locals to help support their predatory animal control programs. The Department has assigned 1 FTE to fulfill both its rodent and predatory animal control responsibilities. According to Department records for Fiscal Year 2000, most of this employee's technical assistance time was spent on rodent control activities (about 83 percent).

The Department's Struggle to Meet Its Rodent and Predatory Animal Control Responsibilities Continues

As part of our 1994 performance audit we recommended that the Department review its statutory responsibilities regarding rodent and predatory animal control. At the time of that audit we found that the Department could not demonstrate that its rodent and predatory animal control programs were operating efficiently and effectively. Service gaps existed throughout the State, performance measures did not demonstrate that the Department's programs were effective in addressing problems, and funding mechanisms were both inequitable and unreliable. The Department agreed with our findings and established a goal to correct the identified problems by July 1996.

During our current audit we found that the Department is still struggling to meet its statutory responsibilities regarding rodent and predatory animal control. Only one staff member is now assigned to this program area, there is no viable source of funding for a state-level program besides the General Fund, and service delivery gaps are still apparent throughout the State, especially with regard to rodent control. On the surface, this information would tend to indicate that a problem exists. In fact, however, we found data which suggest that the State may not need to expand its efforts in the areas of rodent and predatory animal control. For example, recently published USDA statistics show that sheep and lamb losses due to predation actually declined in Colorado during the period 1994 to 1999, even though the State passed a trapping ban that became effective in January 1997. Further, data that the Department collects on monetary losses caused by rodents and predatory animals show no clear upward trend in recent years. In addition, public health data do not show any recent increases in rodent-borne illnesses affecting humans (e.g., plague, hantavirus). Finally, at least in the case of predatory animal control, there appears to be a viable network of entities (e.g., federal and county governments, wool and cattle growers' associations) that can and already do provide these services, so it seems duplicative for the Department to also provide them. For these reasons, we concluded that increased funding or service levels for state-level rodent and predatory animal control activities may not be warranted at this time.

The Department Should Shift Its Focus Away From Providing Direct Control Services

The Department may need to keep a presence in the area of rodent and predatory animal control because of the ongoing importance of these issues within the agricultural community. We do suggest, however, that the Department work with the General Assembly to limit its statutory responsibilities to providing technical assistance, education, and economic assistance to local entities wishing to engage in rodent or predatory animal control activities (contingent upon available funding). Providing direct control services seems to be a less productive use of the State's time and resources when compared with training others to provide the services themselves.

Recommendation No. 19:

The Department of Agriculture should work with the General Assembly to eliminate its statutory responsibilities for providing direct rodent and predatory animal control services.

The Department should continue to provide technical assistance, education, and economic support to local entities upon request, contingent upon the availability of adequate funding.

Department of Agriculture Response:

Agree. Legislative change will be sought in the 2002 Legislative Session.

The Department Conducts Inspections of Fruit, Vegetables, and Other Agricultural Products

The Division of Inspection and Consumer Services performs inspections of fruit, vegetables, and other agricultural products to provide evidence of quality and condition. Statutes mandate the inspection of one commodity (potatoes); all other inspections are performed on a voluntary basis (i.e., by request or by virtue of a marketing order). Inspection fees are currently 9.5 cents/hundredweight or $20 per hour for the mandatory inspection program and $24.50 per hour (plus overtime and mileage charges if applicable) for the nonmandatory inspection program. Mandatory potato inspections currently account for over 96 percent of the Division's fruit and vegetable inspection workload. In Fiscal Year 2000, combined revenues for the mandatory and nonmandatory fruit and vegetable inspection programs totaled $2,062,587 and combined expenditures totaled $1,915,658.

The Mandatory Inspection Program Receives General Fund Subsidies

As mentioned above, inspection fees for the mandatory inspection program are lower than those for the nonmandatory inspection program. This is because the mandatory inspection program receives two forms of statutory operating subsidies, which are explained below:

- An annual general fund appropriation of $200,000 or 50 percent of the operational cost of the program, whichever is less (the $200,000 figure is always the lesser amount because the operational costs of this program far exceed $400,000 a year).

- An indirect cost cap of 5 percent of the funds appropriated by the General Assembly for the program. In Fiscal Year 2000 indirect costs charged to the mandatory inspection program were $82,835, or about 4.5 percent of total program expenditures of $1,849,639. Using the Department's own methodology (explained more fully in Chapter 2), we estimate that actual indirect costs for this program in Fiscal Year 2000 were $243,770, or about 13.2 percent of program costsSa difference of $160,935.

The Economic Development Goal of the Mandatory Potato Inspection Program Has Been Achieved

In our 1994 performance audit of the Department we recommended establishing a fee structure for all fruit and vegetable inspections that raised enough money to cover all direct and indirect program costs. We reiterate that recommendation now. If the subsidies for this program were eliminated, about $360,935 in additional costs would need to be charged to program users. This would necessitate a fee increase of about 1.9 cents per hundredweight given current demand for inspections. Even so, we believe that eliminating the general fund subsidies for this program would have several desirable effects, including the following:

- **Over $360,000 in general funds would be freed up for other uses.** Further, the cost of operating this program would be shifted to the industry that benefits most from it. It appears that the general fund subsidies for this program originally served as an economic development tool for Colorado's nascent potato-growing industry. As we stated in 1994, Colorado now has a thriving potato industry. According to the most recent USDA statistics, Colorado was third and fifth, respectively, in 1997 and 1998 in terms of U.S. potato production.

- **Equity problems regarding the overall fee structure for the fruit and vegetable inspection program would be eliminated.** Because the inspection costs for potatoes are partially paid by the General Fund, producers do not have to pay for the full cost of providing this service. Producers of other commodities that are routinely inspected through the Department's nonmandatory inspection program (e.g., peaches, corn, broccoli, onions) must pay the full cost of their inspections, which means higher inspection fees and, consequently, higher production costs. This seems inequitable given the relative size and strength of the potato industry as compared with the rest of Colorado's fruit and vegetable industry.

- **The administrative complexity of the Department's fruit and vegetable inspection program would be reduced.** Because different revenue expectations apply to the mandatory and nonmandatory inspection programs, separate cash funds must be maintained for each program as well as different budgeting and fee-setting processes. These duplicative processes could be eliminated if the revenue expectations for both programs were eliminated.

The Department should work with the General Assembly to eliminate the subsidies for the Mandatory Fruit and Vegetable Inspection Program and develop a fee structure that is equitable to all users and recovers all actual direct and indirect operating costs.

Recommendation No. 20:

The Department of Agriculture should work with the General Assembly to repeal statutes that shift the cost of fruit and vegetable inspections away from funding sources besides direct user fees (i.e., eliminate the statutory indirect cost cap and the $200,000 annual general fund subsidy for mandatory potato inspections). Fees charged for all fruit and vegetable inspections**S**mandatory or nonmandatory**S**should recoup the actual direct and indirect costs of providing services.

Department of Agriculture Response:

Disagree. We believe the mandatory inspection requirement for potatoes provides a substantial marketing advantage to this larger, less perishable crop and this advantage has assisted Colorado in becoming a major potato producer and exporter. We believe this requirement to be an attractive and effective tool in the national marketplace and elimination of the statutory indirect cost cap and general fund subsidy would work to the detriment of the Colorado potato industry. The statutory structure which provides for the direct and indirect costs was reviewed and re-authorized by the General Assembly in 1993. Senate Bill 93-77 specifically reviewed the funding, fee-setting, and overhead calculations for this program. By its action, the General Assembly approved the current system. The Department does not believe it is prudent to present this issue before the General Assembly at this time. We do, of course, stand ready to assist members of the General Assembly should they desire to propose such a review or legislation.

Auditor's Addendum

The Department's response, which is nearly identical to the response it provided to a similar recommendation we made in our 1994 performance audit, shows a lack of concern for the challenges that currently are facing state budget makers, as well as the conditions now present within various sectors of Colorado's agricultural industry. Legislators and citizens expect state government managers

to periodically reassess the need for various government programs and policies. It is inappropriate for the Department to conclude that decisions made by the General Assembly eight years ago are not worthy of reconsideration.

Evaluation of Actions Taken on the 1994 Performance Audit

Chapter 5

Overview

As part of our current audit we reviewed the implementation status of selected recommendations made in the Office of the State Auditor's August 1994 performance audit of the Department of Agriculture. We reviewed the status of 16 of the 23 recommendations contained in this report. Of the recommendations we selected for review, the Department agreed to, at least in part, all but one recommendation. Specific information regarding the implementation status of each of the recommendations we included in our follow-up review is shown after the following section.

Improved Oversight and Accountability Are Needed to Ensure Recommendations Are Appropriately Addressed

Overall, we found that the Department has fully implemented only 2 of the 16 recommendations we selected for our follow-up review (13 percent). Nine additional recommendations are partially implemented (56 percent) and five recommendations remain not implemented (31 percent). Given the Department's initial general agreement with the recommendations and the fact that more than six years have passed since the release of the audit, we anticipated that more recommendations would be fully implemented. Instead, our review showed that the Department needs to initiate a number of actions if it is to fully implement the recommendations which remain unaddressed. Our disposition report on each recommendation provides more information about the tasks that are still at hand. Issues from the 1994 audit report that are still relevant and applicable to our current audit work are also discussed in other sections of this report, where appropriate.

We found that the Department does not have formal processes in place to ensure that audit recommendations are addressed in a timely and complete manner. This may have contributed to the Department's lack of follow-through in fully implementing the recommendations contained in the 1994 audit report. Instituting more formalized oversight and accountability mechanisms will help ensure that audit recommendations are addressed in an appropriate manner in the future. Possible improvements include developing a formal plan to address each audit recommendation with which there is agreement and then assigning responsibility for plan implementation to individual managers within the Department. Accountability could also be enhanced if the Department included audit recommendation implementation as one of the factors it uses to assess the performance of its management staff.

Recommendation No. 21:

The Department of Agriculture should institute improved oversight and accountability processes to ensure audit recommendations are addressed in both a timely and complete manner.

Department of Agriculture Response:

Agree. The Department will develop procedures for reviewing responses to audit recommendations and to ensure they are completed in a timely manner.

Status of Individual Recommendations Selected for Follow-Up Review

1994 Recommendation No. 1:

The Department of Agriculture should work with the General Assembly to improve the Fruit and Vegetable Inspection Programs by:

a. Simplifying the organizational structure of the programs by seeking repeal of the mandatory inspection statutes. The Department should continue to perform the inspection activities desired by the industry through its marketing order authority.

b. Proposing statutes which allow the Commissioner to develop an equitable fee structure which supports all direct and indirect costs of the program. This should include a method to ensure all program costs are charged to users.

1994 Department of Agriculture Response:

a. Partially agree. The Department agrees that the statutory provisions requiring mandatory peach inspection should be removed from C.R.S., 35-23, particularly in light of the termination of the peach marketing order. However, we believe the mandatory inspection requirement for potatoes provides a substantial marketing advantage to this larger, less perishable, crop, and this advantage has assisted Colorado in becoming a major potato producer and exporter. We believe this requirement to be an attractive and effective tool in the national marketplace and that its elimination would work to the detriment of the Colorado potato industry.

b. Disagree. The statutory structure which provides for the direct and indirect costs was reviewed and reauthorized by the General Assembly in 1993. Senate Bill 93-77 specifically reviewed the funding, fee-setting and overhead calculations for this program. By its action, the General Assembly approved the current system. The Department does not believe it is prudent to present this issue before the General Assembly again at this early date. We do, of course, stand ready to assist members of the General Assembly should they desire to propose such a review or legislation.

Department of Agriculture Status (October 2000):

Partially Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. Senate Bill 95-6 repealed the mandatory inspection requirement for peaches. The mandatory inspection requirement for potatoes, however, remains in statute. In addition, general fund monies**S**in the form of a direct $200,000 annual subsidy and an indirect cost cap**S**are still being used to help support the mandatory inspection program. See current Recommendation No. 20 regarding these issues.

1994 Recommendation No. 2:

The Department of Agriculture should fulfill its statutory charge to provide rodent and predatory animal control services by:

a. Performing a review of potential revenue sources and service delivery options, which considers existing efforts at the local and federal levels.

b. Seeking appropriate funding and statutory changes.

1994 Department of Agriculture Response:

Agree. It is recognized that rodent and predator problems continue to increase and past efforts to increase funding have been unsuccessful. As a result, the Department is reviewing delivery options at the local, state, and federal levels, including potential revenue sources. In addition, a budget decision item has been submitted which includes innovative and nontraditional labor sources.

Department of Agriculture Status (October 2000):

Deferred.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. The Department began receiving annual general fund appropriations of approximately $66,000 in Fiscal Year 1998 to help defray the cost of its predatory animal control activities. Most of these funds (about $50,000 a year) are passed through to local entities to help pay for their predatory animal control programs. Beyond this change in funding, however, little has been done to improve the effectiveness of the Department's rodent and predatory animal control programs. For example, neither the Rodent Pest Control Fund nor the Predatory Animal Fund have any dedicated source of revenue other than funds received as reimbursement for the actual cost of materials sold and services rendered to landowners and others. Further, the Department currently has only 1 FTE dedicated to rodent and predatory animal control and most of this employee's time is spent exclusively in the Denver Metro/Front Range area. As such, service gaps may still exist in other areas of the State. Even in light of these issues, however, current data suggest that the Department may not need to expand its efforts in these program areas. See Recommendation No. 19 for further discussion.

1994 Recommendation No. 3:

The Department of Agriculture should improve its ability to regulate meat processing facilities by:

a. Reintroducing its proposal for a cooperative agreement to inspect custom- exempt processors.

b. Formally adopting the newest version of the USDA rules and regulations.

c. Developing and implementing a risk-based inspection strategy.

1994 Department of Agriculture Response:

a. Agree. The Department will reintroduce and vigorously pursue a cooperative agreement with USDA for the inspection of custom-exempt meat processors.

b. Agree. The Department will move in a timely manner to develop and adopt updated rules and regulations consistent with those of USDA.

c. Agree. The Department will continue to develop and implement a risk-based inspection strategy and an automated inspection tracking and evaluation system for this and other multiple inspection activities to the extent ADP resources will allow.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Implemented, but see current Recommendation No. 4 regarding additional improvements that are needed in the Department's approaches for inspecting meat processing facilities.

1994 Recommendation No. 5:

The Division of Plant Industry should develop an improved planning and management approach for the Pesticide Section which includes:

a. Workload and risk analysis to determine the optimal regulatory activity in each inspection territory.

b. Strategies for systematically testing newly and previously registered pesticide products.

c. Identification and implementation of a risk-based strategy for inspecting pesticide dealers and applicators.

1994 Division of Plant Industry Response:

Partially agree. The Division agrees to continue to work to improve planning and management for all of its sections. Inspectors have an obligation to respond to 15 assigned routine functions, including pesticide functions, within their individual territory. Steps will be initiated by January 1, 1995, to determine the best approach, within our resources, to improve workload and risk analysis.

The Division disagrees with systematic testing of newly and previously registered products. This would not be a cost-effective strategy as we register from 8,000 to 10,000 products each year. This would not improve consumer protection above our existing sampling program. Our strategy for testing pesticides must be viewed in conjunction with other aspects of testing for compliance with the Pesticide Act. During 1993 the Division registered 9,674 products and issued 1,954 product cease and desist orders, primarily for unregistered products offered for sale in Colorado. A risk-based strategy for compliance with the Pesticide Act must emphasize elimination of unregistered products. The cease and desist order is written for the manufacturer of the unregistered product.

The Division will continue to identify, formalize, and implement a risk-based strategy for inspecting pesticide dealers and applicators.

Department of Agriculture Status (October 2000):

Partially Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. Since the audit the Division of Plant Industry has made several improvements to its methods for planning and conducting pesticide-related inspections and related regulatory activities. For example, the Division recently prioritized all of its inspection responsibilities by functional area, performed various workload analyses, and assigned individual inspector workload accordingly. The

Division also developed a model for assigning risk to inspections of commercial pesticide applicators, but this model is still not in widespread use among the Division's inspectors. The Division has not, however, developed a risk-based inspection approach for pesticide dealers and has no plans to develop such an approach any time in the near future. We also noted that the Division needs to formalize its policies and procedures regarding re-inspections and other types of follow-up activities. Ongoing problems related to the Division's inspection approaches are discussed further in Chapter 1.

Because of the absence of any recent statistical data related to this function, we could not determine whether the Division had improved its strategies for testing newly and previously registered pesticide products.

1994 Recommendation No. 8:

The Division of Plant Industry should revise its practices to require inspectors to be more accountable to their work plans and decisions.

1994 Division of Plant Industry Response:

Agree. By March 1, 1995, the Division of Plant Industry will implement practices to provide more accountability.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. Although inspector accountability has improved since the prior audit, additional improvements are still needed. For example, the Division of Plant Industry recently created (April 2000) a new performance planning and evaluation system that establishes goals for inspections and other types of regulatory activity by inspector and by territory. These documents supercede the work plans that were in place at the time of the audit. Even though the new performance planning and evaluation system is a marked improvement over previous accountability mechanisms, it is still too soon to tell whether the new system will have the desired effect on inspector accountability. We also noted that inspector discretion is still excessive in terms of assessing the risk of regulated entities and scheduling follow-up visits when violations are identified. Ongoing problems related to the Division's inspection approaches are discussed in Chapter 1.

1994 Recommendation No. 9:

The Division of Inspection and Consumer Services should improve its management of multiple inspector workload and approaches by:

a. Maintaining automated data which demonstrate individual and aggregated inspector workload over time.

b. Using such data to evaluate the Department's statewide approaches, individual inspector performance, and future staffing requirements.

c. Basing inspection coverage on a balance of management direction and individual inspector decisions, and then concentrating inspection resources on high-risk areas.

1994 Division of Inspection and Consumer Services Response:

a. Agree. An automated inspection tracking and evaluation system to monitor multiple inspector performance would be a valuable tool for managing this workforce. The Division of Inspection and Consumer Services prepared a decision item for the Information Management Commission (IMC) and the Fiscal Year 1996 budget. The funding request could not be included in the Fiscal Year 1996 budget request because a systems analysis was not done. The systems analysis project was included in our Fiscal Year 1995 IMAP, which was submitted to the IMC on July 15, 1994. We will continue to work with existing ADP resources to achieve this goal.

   In the interim, a spreadsheet program is being developed to summarize and evaluate one of the manually prepared report forms currently being used to track multiple workload.

b. Agree. We agree that this system would enhance management control of the multiple inspection program and would allow a more efficient use of resources.

c. Agree.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. The Department is currently in the process of implementing CDAIS (i.e., the Colorado Department of Agriculture Information System). When complete, this system should address most of the data collection and automation problems we identified in our 1994 audit report. At this time, however, portions of the system are either still in the planning phase or they are not functioning as envisioned. As a result, the Division of Inspection and Consumer Services still performs a number of duplicative and/or manual data collection procedures for the purposes of assigning and monitoring inspector workload, gauging individual inspector performance, evaluating the Division's statewide approaches, and determining future staffing requirements. Further, we noted that with the exception of the inspections it conducts at farm products dealers and meat processing facilities, none of the Division's inspection activities use a risk-based approach (USDA requires use of a risk-based inspection approach for meat processing facilities). Ongoing issues regarding the Division's inspection approaches are discussed in Chapter 1.

1994 Recommendation No. 10:

The Department of Agriculture should work with the General Assembly in considering statutory changes which would allow actual costs to be recovered when providing metrology services to private companies and federal agencies.

1994 Department of Agriculture Response:

Agree. The Department supports statutory changes which would permit full cost recovery for metrology services provided to private companies and federal agencies. Specifically, we would prefer a system whereby these fees could be reviewed and set annually by the Colorado Agricultural Commission, rather than directly fixed within the statute. This option would permit the Department to respond to inflationary pressures and avoid future fee inequities.

Department of Agriculture Status (October 2000):

Deferred.

Office of the State Auditor Disposition (December 2000):

Not Implemented. Since the time of the audit, no changes have been made to the Department's fee structure for metrology services. See current Recommendation No. 7 regarding this issue and others related to the Department's fiscal operations.

1994 Recommendation No. 11:

The Department of Agriculture and the General Assembly should determine whether changes in the predatory animal control statutes are needed to:

a. Create a funding mechanism which does not rely upon the federal government's wool subsidy program listing.

b. Ensure a stable and equitable funding source by assessing all users of the Department's predatory animal control services.

1994 Department of Agriculture Response:

Agree. Because of the loss of the federal government's wool incentive program, it is essential to develop a new method of assessment if the predatory animal control program is to continue. The Department will work with the users of the program to develop proposed statutory changes for consideration by the General Assembly.

Department of Agriculture Status (October 2000):

Deferred.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. As anticipated at the time 1994 audit, the federal wool incentive program expired and was not replaced with another source of federal funding. As mentioned previously, however, the Department recently began receiving general fund appropriations of about $66,000/year to help pay for expenditures related to its predatory animal control program. About 75 percent of these funds ($50,000 a year) are passed on to local predatory animal control programs and any remaining monies are used to help defray state-level program costs. State costs in excess of any funding left over from this source are also borne by the General Fund (e.g., salary and operating costs for 1 FTE). There is currently no mechanism for assessing fees that could help pay for the Department's predatory animal control program, so equity issues are irrelevant at this time. We are concerned that the General Fund is bearing the cost of the Department's predatory animal control program, given the fact this program clearly benefits specific user groups. However, developing an equitable, easily administered cash-funding mechanism may be difficult because of inherent data collection problems. For a more in-depth discussion of problems regarding the Department's predatory animal control responsibilities, see the narrative preceding Recommendation No. 19.

1994 Recommendation No. 12:

The Department of Agriculture should improve its methods for allocating program costs by:

a. Identifying all direct costs associated with its cash-funded programs and allocating the costs appropriately.

b. Using the resulting information in its fee-setting methodology.

1994 Department of Agriculture Response:

Agree. The Department will identify all direct costs associated with its cash-funded programs and allocate the costs to the appropriate cash fund. As estimated program costs have always been included in the fee setting/revenue determination, this information will be included in the process.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Not Implemented. We found that problems still exist in the methods the Department uses to allocate supervisory and fringe benefit costs among its various cash-funded programs. See current Recommendation No. 10.

1994 Recommendation No. 13:

The Department of Agriculture should improve its method for allocating costs by refining its internal controls which detect inaccuracies and data entry errors.

1994 Department of Agriculture Response:

Agree. The Department has implemented an improved methodology for allocating costs and has refined its internal review process to strengthen its internal controls which detect data entry errors.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Implemented.

1994 Recommendation No. 14:

The Division of Plant Industry should improve the fee review processes for the Pesticide Registration and Groundwater Protection Programs by:

a. Annually evaluating the fees used to fund the programs.

b. Using the resulting information to make changes to fees and/or service levels.

c. Documenting the methodology used.

1994 Division of Plant Industry Response:

a. Agree. We will continue to evaluate fees annually.

b. Agree. Non-statutory fee changes will be initiated as determined by evaluation. Service-level changes will be implemented utilizing available resources.

c. Agree. Documentation process will begin by January 1, 1995.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. The Department performs some annual analysis of the revenues and expenditures associated with the Pesticide Registration and Groundwater Protection Programs as part of its efforts to comply with Senate Bill 98-194. This analysis is shown in Schedule 11 of the Department's budget request. Beyond this information, however, we could find no documentation of the methodology or assumptions the Department is using to adjust fees in these programs or in many others. Further, we found evidence that a recent fee change did not have the desired effect on Pesticide Registration Fund revenues and had to be revisited within a year because the initial fee adjustment decision was made without adequate information. See current Recommendation No. 7 regarding this issue.

1994 Recommendation No. 17:

The Department of Agriculture should improve its ability to process and maintain data by:

a. Analyzing the automated record keeping needs of the divisions, both at the field and division levels.

b. Developing automation options which reduce the cost of record keeping. This may include adopting computerized field-level data entry systems which upload to division- or department-level databases.

c. Assigning responsibility for automation to the Department's Information Systems section to ensure a comprehensive, integrated approach.

d. Pursuing funding sources as appropriate.

1994 Department of Agriculture Response:

Agree. The Department of Agriculture will continue to analyze the automated record keeping needs of the divisions and develop automated options that are cost-effective, as a responsibility of the Department's ADP Section.
The analysis and implementation of the automation needs department-wide is a dynamic, ongoing activity dependent on funds for hardware, software development, and training. The Department will continue to seek funding to improve its ability to process and maintain data.

The Department will implement the recommendation for the multiple inspection program of the Division of Inspection and Consumer Services during the Fiscal Year 1997 budget request process.

Department of Agriculture Status (October 2000):

Partially Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. As mentioned previously, the Department is currently in the process of implementing CDAIS (i.e., the Colorado Department of Agriculture Information System). The responsibility for designing and deploying CDAIS has been assigned to the Department's Information Technology Section to ensure an orderly and integrated implementation approach. When complete, this system should address most of the data collection and automation problems we identified in our 1994 audit report. The Department needs to take several steps, however, to ensure that CDAIS will function as envisioned and will meet the needs of its users. See Chapter 3 for more information about this issue.

1994 Recommendation No. 18:

The Department of Agriculture should improve its methods for handling complaints by:

a. Developing more effective methods to inform the public of how to lodge complaints.

b. Creating written policies and procedures.

c. Periodically analyzing summary complaint data to determine if enforcement or inspection strategies should be refocused.

1994 Department of Agriculture Response:

Agree. The Department agrees that a review of complaint response methods should be performed and that, in general, a consistent set of written policies and procedures should be established throughout the Department to enhance response times and to provide equitable treatment to all complainants. The value of this information as a managerial tool for the review of enforcement strategies and customer service evaluations is obvious. The Department will review its present methods of informing the public of how to lodge complaints and make improvements where it is cost-effective.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Not Implemented. Although the Department has recently placed three complaint forms on its Internet home page, it has done little else to increase public awareness about its complaint processes. For example, we noted that only one of the Department's numerous brochures included information about how to file a complaint (i.e., Pet Care Facilities Program brochure). Further, we noted that the Department's current methods for handling complaints still lack specific components which are integral to an effective complaint-handling system (e.g., formal policies and procedures, systematic record keeping, routine monitoring and analysis of complaint data). See current Recommendation No. 5 regarding the improvements that are still needed in the Department's complaint-handling processes.

1994 Recommendation No. 19:

The Department of Agriculture should perform a comprehensive review of its statutory authority and seek repeal or revision of laws which may be outdated or obsolete.

1994 Department of Agriculture Response:

Agree. By October 1, 1995, the Department will perform a review of its statutes for laws which should be revised or repealed due to outdated and obsolete provisions. A plan will be determined to offer the changes to the General Assembly for consideration.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Not Implemented. We found no evidence that the Department has performed any comprehensive or regular review of the statutes governing its activities to identify laws that are either obsolete or outdated. In fact, two of the statutes that we identified as being out-of-date at the time of the audit still remain unchanged (e.g., statutes regarding rodent control activities which contain outdated references to the federal Bureau of Sport Fisheries and Wildlife, and statutes regarding bounties for killing predatory animals which conflict with federal laws regarding protected species). See current Recommendation No. 6.

1994 Recommendation No. 20:

The Department of Agriculture should review its statutory reporting requirements and seek repeal of requirements which have marginal value.

1994 Department of Agriculture Response:

Agree. By October 1, 1995, the Department of Agriculture will perform a review of its statutory reporting requirements and identify any reports which are no longer useful to the reader(s) under the requirement.

A plan will be determined to offer recommendations for repeal of reporting requirements identified in the Department's review to the General Assembly for consideration.

Department of Agriculture Status (October 2000):

Implemented.

Office of the State Auditor Disposition (December 2000):

Partially Implemented. The Department did not provide any evidence that it has performed a formal review of its statutory reporting responsibilities to identify requirements of marginal value. Even so, we noted that one of the reporting requirements we identified as marginal during the original audit has been eliminated (i.e., statutes requiring an annual progress report regarding the Groundwater Protection Act were repealed by House Bill 96-1167). Additional reporting requirements that may be of marginal value, however, can still be found in statute. See current Recommendation No. 6.

1994 Recommendation No. 21:

The Department of Agriculture should pursue discussion with the General Assembly to determine if there is interest in eliminating or modifying indirect cost recovery caps.

1994 Department of Agriculture Response:

Disagree. Senate Bill 93-77 included sections to eliminate the indirect cost recovery caps listed in this audit report. The legislation was introduced by the Joint Budget Committee to address this issue and the General Assembly did not eliminate or modify any of the caps. In House Bill 94-1096, the General Assembly determined that a 3.6 percent indirect cost recovery cap was appropriate for the new, cash-funded Alternative Livestock Program assigned to the State Board of Stock Inspection.

The Department believes these recent decisions by the General Assembly affirmed the statutory caps for certain programs and this recommendation has already been addressed.

Department of Agriculture Status (October 2000):

Deferred.

Office of the State Auditor Disposition (December 2000):

Not Implemented. None of the statutory indirect cost caps that existed at the time of the audit have been modified or eliminated. See current Recommendation No. 9.

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