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We have completed an audit of the State Department of Agriculture. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the State Department of Agriculture for their assistance during the audit.

Respectfully presented,

Paul V. Townsend, CPA
Legislative Auditor

February 7, 2006
Carson City, Nevada

STATE OF NEVADA
STATE DEPARTMENT OF AGRICULTURE

AUDIT REPORT

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STATE OF NEVADA
STATE DEPARTMENT OF AGRICULTURE

AUDIT REPORT

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EXECUTIVE SUMMARY

STATE DEPARTMENT OF AGRICULTURE

Background

The State Department of Agriculture's mission is to benefit the welfare of all persons residing in the State by encouraging, advancing, and protecting Nevada's agriculture and related industries, such as livestock. To accomplish its mission, the Department is organized into six divisions with offices throughout the State. The Nevada Legislature created the Department in 1961. An 11-member State Board of Agriculture advises the Governor, Legislature, and Department Director concerning agricultural issues relating to Nevada and establishes the Department's agricultural policies. For fiscal year 2004, the Department had approximately 100 full-time equivalent positions and approximately $10.8 million in expenditures.

Purpose

The purpose of this audit was to evaluate the Department's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. Our audit included a review of the Department's financial and administrative activities for fiscal year 2004, and activities through April 2005 for certain audit issues.

Results in Brief

The Department of Agriculture needs to improve its financial and administrative practices in several areas. For example, we estimate the Department did not collect more than $200,000 in fiscal year 2004 because of billing and collection weaknesses. In addition, staff made significant accounting adjustments after the end of the fiscal year, including an adjustment that prevented money from reverting to the state's General Fund. The Department also lacks cost information on its programs which is essential for ensuring fees are set at the appropriate level. Furthermore, controls are not in place to adequately safeguard money collected and the equipment inventory. The Department also has several opportunities to improve efficiency by reviewing and revising its accounting practices.

Principal Findings

- Six of 10 programs we reviewed had significant billing and collection problems. For example, the Department did not collect the annual tax on livestock from many livestock owners. State law requires livestock owners to pay a tax on each head of specific classes of livestock. However, the Department has not implemented the provisions in NRS 575 intended to maximize the collection of head tax. If these provisions were implemented, we estimate the Department could have collected an additional $50,000 in head tax during fiscal year 2004. (page 11)

- The Department did not charge and collect all fees during the brand renewal period. The fees not always charged were for rerecording and transferring brands. If all brand fees were charged as required, an additional $32,200 would have been collected in fiscal year 2004. This collection problem occurred because staff improperly waived the fees during the brand renewal period. (page 13)

- Many landscape businesses have not obtained a nursery license from the Department and paid the required annual fee. As part of the Department's program to protect Nevada from harmful pests, state law requires all landscape businesses to obtain a license if they provide and install items such as plants, shrubs, sod, and trees. Although 300 landscape related businesses were licensed by the

Department during fiscal year 2004, we identified about 800 more businesses that were likely to meet the requirements for this license. If the Department can increase compliance by 400 licensees, about $50,000 in additional license fees would be available to support this program. (page 14)

- The Department did not actively pursue payment from two companies with significant past due accounts receivable balances. As of December 2004, these companies owed the Department about $113,000 for inspections of potatoes and garlic. In addition, staff continued to provide services to these companies even though some receivables were close to 1 year past due. During our audit, in February 2005, one company proposed a payment schedule for paying the past due amounts. According to the Department, this company's past due amounts have now been paid. However, the other company still owed about $23,000 to the Department. (page 16)

- The Department needs to improve its process for billing and collecting annual license fees for its weights and measures program. Annual fees for weighing and measuring devices were billed late by more than 2 months. In addition, some businesses did not pay their fees timely after receiving the annual renewal notice. Furthermore, collection efforts were weak when businesses did not pay. As of January 2005, about $14,800 in license fees were unpaid, mostly from bills sent in October 2004. (page 17)

- The Department can improve its billing and collection process by centralizing accounting activities. Responsibilities for billing and collecting program fees are scattered amongst the various Divisions and offices throughout the State. As a result, employees responsible for program activities also perform accounting duties, typically without adequate administrative oversight. For example, billing and collection activities were performed by program staff for 7 of 10 programs we reviewed. The lack of oversight of these activities has contributed to numerous billing and collection problems noted in this report. (page 20)

- The Department made numerous accounting adjustments after the end of fiscal year 2004. Between July and September 2004, accounting staff prepared 266 journal vouchers totaling more than $750,000, or about 40% of the Department's accounting adjustments for the year. Because of the amount of work involved to make adjustments, staff time is taken away from other responsibilities. In addition, one adjustment prevented $48,833 from being reverted to the state's General Fund. The Department kept this money by transferring it from its Administration Account to an account that is not required to revert money. The number and amount of accounting adjustments indicates that better controls over accounting activities are needed. (page 21)

- The Department does not adequately track what it costs to operate specific programs within each Division. Complete cost information was not readily available for any of the 10 programs we reviewed. Therefore, management does not have relevant, reliable, and timely information regarding its programs. Tracking program costs will provide management and other decision-makers with the information necessary to make informed decisions. This includes information to set fees at the appropriate level and control program costs. (page 26)

- The Department has not established adequate controls over payments received. Control weaknesses include: 1) inadequate safeguarding of payments, 2) poor separation of accounting duties, 3) collections not compared to deposits, and 4) payments deposited untimely. Controls in this area are important because the Department collected and deposited more than $3.8 million during fiscal year 2004. Without proper safeguards in place, loss could occur and go undetected. (page 28)

- The Department has not adequately safeguarded its equipment inventory that totaled more than $5 million in fiscal year 2004. Inventory records were inaccurate for 36 of 85 items we tested. This includes 13 missing items that cost over $30,000 when purchased. Although state laws and regulations require agencies to maintain accurate inventory records, staff have not ensured an annual inventory is conducted and records are updated each year. (page 30)

- The Department can increase its efficiency by reviewing and revising its accounting practices. For example, the Department makes thousands of small entries into its accounting records to allocate costs to different programs. In fiscal year 2004, staff made 3,584 entries for less than $10 when processing journal vouchers, payment vouchers, and purchase orders. In addition, staff make unnecessary entries into accounting and program records when recording payments. We estimate staff made over 100,000 entries, such as check number or deposit number, that either duplicate another entry or did not improve controls when recording payments. Finally, the Department needs to update and distribute policies and procedures to guide staff in conducting their activities. (page 32)

Recommendations

This audit report contains 14 recommendations to improve the State Department of Agriculture's financial and administrative practices. This includes six recommendations for improving the Department's billing and collection process. In addition, we made three recommendations addressing year-end accounting adjustments. We also made five recommendations to improve the controls and efficiency of accounting practices for revenue, expenditures, and equipment. (page 44)

Agency Response

The Agency, in response to our report, accepted all 14 recommendations. (page 43)

Introduction

Background

Agriculture is an important industry in Nevada, contributing significantly to the economies of rural communities and the State as a whole. Nevada agriculture is directed primarily toward range livestock production. Cattle and calves are the leading agricultural industry. Other livestock enterprises are dairy, sheep and lambs, and hogs. Nevada also produces excellent crops. Alfalfa hay is the leading cash crop of the state. Additional crops produced in Nevada include potatoes, barley, winter and spring wheat, corn, oats, onions, garlic, and honey.

The State Department of Agriculture's mission is to benefit the welfare of all persons residing in the State by encouraging, advancing, and protecting Nevada's agriculture and related industries, such as livestock. To help accomplish its mission, the Department is organized into the following six divisions:

1. Administration – Provides administrative and budgetary oversight to the various divisions, bureaus, and programs administered by the Department.

2. Plant Industry – Detects, eradicates, and prevents the entry into the State of pests, plant diseases, physiological disorders of plants, and noxious weeds for the protection of Nevada's public and agricultural industry. This is done through programs such as enforcing certain quarantines and licensing sellers of nursery stock. The Division also enhances the agricultural industry by certifying agricultural products and seeds for companies. In addition, it oversees the pest control operator license and agricultural enforcement programs.

3. Livestock Identification – Protects livestock owners from the loss of their animals by recording all livestock brands, handling the transfer of recorded brands, inspecting livestock brands, and investigating all reports of theft and other livestock crimes. It also administers the estray horse management program.

4. Animal Industry – Provides diagnostic services to protect domestic and wild animals from communicable, infectious, nutritional, and parasitic diseases and to protect people from animal diseases that are transmissible to humans. Services are provided through

diagnostic laboratories in Reno and Elko. It also evaluates specimens to determine the cause, effect, and a method for control of animal diseases that may have an adverse economic impact or an adverse impact on public health.

5. Resource Protection – Cooperates with the United States Department of Agriculture to control predatory animals, crop-destroying birds, and rodents. It also provides the public with assistance in controlling and preventing damages and diseases caused by wildlife.

6. Measurement Standards – Assures consumers that the weight or measure of food and non-food products, services, or commodities purchased in Nevada is accurate. This is done by staff checking the quantity labeling on packages, investigating complaints, and annually inspecting scales, gas pumps, and meters statewide.

The six divisions are responsible for managing numerous programs and services. Appendix C provides a list of the major programs and services these divisions oversee and provide.

The Nevada Legislature created the State Department of Agriculture in 1961. The Department is headquartered in Reno and has offices in Carson City, Elko, Las Vegas, Sparks, and Winnemucca. An 11-member State Board of Agriculture advises the Governor, Legislature, and Director of the Department of Agriculture concerning agricultural issues relating to Nevada and establishes the Department's agricultural policies. The Board is comprised of individuals representing various sectors of Nevada's agricultural industry. The Board also appoints the Department's Director with approval from the Governor.

For fiscal year 2004, the Department had approximately 100 full-time equivalent positions. These authorized positions do not include seasonal staff. During this time, the Department managed 19 budget accounts with expenditures totaling $10,837,900. Exhibit 1 shows fiscal year 2004 expenditures by budget account.

Exhibit 1

Expenditures by Budget Account
Fiscal Year 2004

	Account Name	Expenditures
1	Nevada Beef Council	$ 352,931
2	Gas Pollution Standards	511,484
3	Plant Industry	1,984,924
4	Grade and Certification of Agricultural Products	290,494
5	Agriculture Research and Promotion	18,955
6	Agriculture Registration and Enforcement	1,097,788
7	Livestock Inspection	986,319
8	Marijuana Health Registry	0
9	Agriculture License Plates	10,500
10	Veterinary Medical Services	1,290,190
11	Weights and Measures	1,261,146
12	Noxious Weed and Insect Control	721,844
13	Agriculture Administration	948,090
14	Rangeland Resources Commission	123,143
15	Rangeland Grasshopper/Mormon Cricket	303,979
16	Predatory Animal and Rodent Control	854,936
17	Nevada Junior Livestock Show Board	34,457
18	Agriculture Fines	18,250
19	Junior Agricultural Loan Program	28,470
	Total	**$10,837,900**

Source: State's accounting system and legislative approved budgets.

During fiscal year 2004, the Department collected and deposited $3,827,971 in fees. It also received $3,806,675 in General Fund appropriations. Other funding sources include grant monies, and transfers from other state agencies.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and

Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Department of Agriculture's financial and administrative activities for fiscal year 2004, and activities through April 2005 for certain audit issues. The objective of the audit was to evaluate the Department's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, and policies.

Findings and Recommendations

The Department of Agriculture needs to improve its financial and administrative practices in several areas. For example, we estimate the Department did not collect more than $200,000 in fiscal year 2004 because of billing and collection weaknesses. In addition, staff made significant accounting adjustments after the end of the fiscal year, including an adjustment that prevented money from reverting to the state's General Fund. The Department also lacks cost information on its programs which is essential for ensuring fees are set at the appropriate level. Furthermore, controls are not in place to adequately safeguard money collected and the equipment inventory. The Department also has several opportunities to improve efficiency by reviewing and revising its accounting practices.

Billing and Collection Process Needs Improvement

The Department's billing and collection process needs improvement. Six of 10 programs we reviewed had significant billing and collection problems. These problems included poor identification of non-payers, unauthorized waiver of fees, inadequate collection practices, and untimely billings. As a result, we estimate the Department did not collect more than $200,000 in fees during fiscal year 2004 for the programs reviewed. For several programs, the centralization of accounting activities would improve oversight of the billing and collection process.

Livestock Head Tax Not Collected

The Department did not collect the annual tax on livestock from many livestock owners. State law requires livestock owners to pay a tax on each head of specific classes of livestock. However, the Department has not implemented the provisions in NRS 575 intended to maximize the collection of head tax. If these provisions were implemented, we estimate the Department could have collected an additional $50,000 in head tax during fiscal year 2004.

The Department collects head tax based on the maximum rate per head established by NRS 571.035. For fiscal year 2004, the rate per head of livestock was:

• Goats	$0.06
• Hogs and Pigs	$0.07
• Stock Cattle	$0.28
• Dairy Cattle	$0.53
• Horses, Mules, and Burrows or Asses	$0.75

In addition, the minimum tax due annually from each livestock owner is $5. Based on the above rates, head tax collections by the Department totaled $131,000 for the fiscal year 2004 billing period.

The Department has not set up an effective process to identify, bill, and collect head tax from livestock owners. We found the Department had information on owners who received livestock inspections in Nevada; however, this information was not used to identify non-payers. Also, staff did not follow-up on some livestock owners who paid head tax for fiscal year 2003, but did not pay for 2004 even though they still owned a large number of cattle. For example, one company paid $1,485 in head tax for 2,801 livestock in fiscal year 2003; however, it did not pay any head tax in fiscal year 2004. According to an employee of this company, they did not pay head tax for 2004 because they had not received an invoice.

Our review of the Department's livestock inspection records and United States Department of Agriculture (USDA) statistics identified a significant underpayment of head tax. We tested the Department's livestock inspection records and found 65 of 167 (39%) livestock owners selected did not pay head tax in fiscal year 2004. These owners had a brand inspection performed by the Department during the year, but did not submit a livestock declaration form or pay the annual tax. In addition, USDA statistics indicate that livestock owners do not always report the number of cattle subject to the head tax. The USDA estimated there were 510,000 cattle and calves in Nevada for 2004. However, Department records indicate cattle owners reported 379,333 cattle subject to the head tax, 130,667 (26%) less than the USDA estimate. Using these two sources of information to establish a range for unpaid head tax, we estimate the Department could increase collections by $50,000.

In 2001, full responsibility for collecting head tax was transferred to the Department from Nevada's counties. Because this responsibility was previously shared with the counties, the Department was in a transition period during our audit. According to the Department, it began collecting head tax for livestock owners in certain counties during fiscal years 2002 and 2003. Fiscal year 2004 was the first time the Department collected head tax from livestock owners in all 17 Nevada counties.

Implementing the collection provisions established in NRS 575 would help improve the head tax collection process. Statutes applicable to the head tax require specific billing actions by the Department. In addition, these statutes contain several payment incentives and enforcement provisions such as late penalties, interest, and liens upon livestock until taxes are paid. Furthermore, NRS 575.230 prohibits the Department from issuing a brand inspection certificate for the movement of any livestock owned by a person delinquent in paying tax. Therefore, by implementing the provisions of NRS 575, the Department should be able to significantly increase the collection of head tax.

Brand Rerecording and Transfer Fees Not Collected

The Department did not charge and collect all fees during the brand renewal period. The fees not always charged were for rerecording and transferring the ownership of brands. If all brand fees were charged as required, an additional $32,200 would have been collected in fiscal year 2004.

Brand fees were not always collected because staff improperly waived the fees during the brand renewal period. Every 4 years, Nevada livestock brands expire by law and owners must pay a fee to renew their brand. According to staff, it has been the Department's long-standing practice to waive certain fees during the brand renewal period, which can last 8 months or more. However, our review of this practice found that waiving fees is not in compliance with the Department's regulations and policies. Exhibit 2 provides information on the fees the Department did not charge during the brand renewal period.

Exhibit 2

Brand Fees Not Charged and Collected
Fiscal Year 2004

Type of Fee	Fee Amount	Number of Fees Waived	Amount Not Collected
Brand Rerecording	$100	111	$11,100
Brand Transfer	$100	211	$21,100
Total Not Collected		**322**	**$32,200**

Source: LCB Audit review of Department's brand program records.

Most fees that were improperly waived relate to transferring a brand to a new owner. NAC 564.010 and internal policies require a $100 fee for each transfer of legal ownership. From our review of the Department's transfer files, we identified 211 transfers of ownership without charging the required $100 fee. Staff indicated these fees were waived because the brand was transferred to a family member during the brand renewal period. However, regulations and policies do not provide any exemptions for transferring a brand to a family member or a waiver period when the transfer occurs. By waiving brand rerecording and transfer fees, the Department cannot adequately recover its costs to administer these transactions.

Nursery License Fees Not Collected

Many landscape businesses have not obtained a nursery license from the Department and paid the required annual fee. As part of the Department's program to protect Nevada from harmful pests, state law requires all landscape businesses to obtain a license if they provide and install items such as plants, shrubs, sod, and trees. Although 300 landscape related businesses were licensed by the Department during fiscal year 2004, we identified about 800 more businesses that were likely to meet the requirements for this license. If the Department can increase compliance by 400 licensees, about $50,000 in additional license fees would be available to support this program.

Nevada law requires landscapers and other dealers of nursery stock (i.e. plants, shrubs, and trees) to obtain a license. A dealer of nursery stock is defined in statutes as a person who produces, holds, distributes, collects, or sells nursery stock, including, without limitation, a retail business, wholesale grower, landscape contractor, landscape maintenance business, broker, or peddler. Therefore, anyone who supplies nursery stock to a customer must be licensed.

During fiscal year 2004, the Department collected $120,840 in nursery license fees. For most license categories such as nurseries, landscapers, and retailers, the annual license fee is $130. Exhibit 3 shows the number of nursery license holders by business type during fiscal year 2004.

Exhibit 3

Number of Nursery License Holders by Business Type Fiscal Year 2004

Business Type	Number of License Holders	Percent
Wholesaler	34	3.7%
Nursery	38	4.2%
Other	58	6.4%
Landscaper	300	32.9%
Retailer	482	52.8%
Total	**912**	**100.0%**

Source: Fiscal year 2004 nursery license database.

Our review of several sources of information indicates that most landscape related businesses are not licensed with the Department. We reviewed a list of licensed landscape contractors from the State Contractors' Board, a customer list for one large nursery provided by the Department, and telephone book advertisements. Based on our review of these three sources of information, we identified approximately 800 landscape related businesses that did not have a license. Because many businesses are not licensed by the Contractors' Board or do not advertise in telephone books, the total number of unlicensed landscape businesses is likely to be higher than we identified.

Compliance with licensing requirements is important for several reasons. First, the Department needs to know the location of landscape businesses to conduct inspections of nursery stock. Second, because landscape businesses often buy their nursery stock from out-of-state, the Department needs to know where business records are maintained so it can verify where nursery stock is coming from. Finally, licensing fees are needed to support the program. If the Department can increase compliance, then additional funds will be available to improve the program and help protect Nevada from harmful pests.

Although the Department has been successful in licensing nurseries and retailers, ensuring that landscape businesses comply with the Department's licensing requirements has been difficult. For example, landscapers may not understand they need a license. In addition, landscape businesses are much more difficult to identify and locate compared to a nursery or retailer. Furthermore, enforcement is difficult because landscapers do not always work at a permanent location like a nursery or retailer.

The Department has made efforts to identify and notify landscape businesses of the licensing requirements; however, more work is needed. For instance, the Department's letters and forms could be improved to clearly communicate license requirements for landscape businesses. In addition, letters and forms do not compel businesses to obtain a license. Although the Department can issue fines of up to $1,000 for violations of nursery laws, letters and forms do not contain any stated consequence for noncompliance. Lastly, the Department does not have any written policies and procedures in place to ensure a sustained effort is made to identify and educate businesses about license requirements, and to enforce these requirements.

Accounts Receivable Not Actively Pursued

The Department did not actively pursue payment from two companies with significant past due accounts receivable balances. As of December 2004, these companies owed the Department about $113,000 for inspections of potatoes and garlic. In addition, staff continued to provide services to these companies even though some receivables were close to 1 year past due. These problems occurred because the Department lacks an effective process for billing and collecting fees.

One company owed the Department approximately $90,000 as of December 31, 2004. Between March and August 2004, the Department billed $74,000 in services to this company. However, because this company was behind on paying bills, none of the money it paid during the year applied to these services. This company also disputed some of the Department's administrative charges; however, the Department did not have a written agreement with this company regarding fees. NAC 587.340(1) requires the fees for potato inspections be determined by agreement between the Department and the company. During our audit in February 2005, this company proposed a payment schedule for the past due amounts. According to the Department, these past due amounts have now been paid.

Another company owed the Department approximately $23,000 as of December 31, 2004. Staff indicated this company had a poor payment history; however, the Department continued to provide services even though some receivables were approximately 1 year past due. This amount was still outstanding during our audit.

The Department lacks an effective process for billing and collecting fees for these services. First, the Department did not have a written agreement when significant services were provided. Second, no penalties such as late fees were in place to encourage timely payment for these services. Third, the Department did not pursue collection action such as seeking assistance from the State Controller or using a debt collection agency. Lastly, the Department continued to provide services to customers who did not pay. Because these types of inspection services are provided at the request of customers, the Department should enter into a written agreement when significant services are provided and discontinue services to customers who do not pay.

Billing and Collection of Weights and Measures Fees Needs Improvement

The Department needs to improve its process for billing and collecting annual license fees for its weights and measures program. Annual fees for weighing and measuring devices were billed late by more than 2 months. In addition, some businesses did not pay their fees timely after receiving the annual renewal notice. Furthermore, collection efforts were weak when businesses did not pay. As of January 2005, about $14,800 in license fees were unpaid, mostly from bills sent in October 2004.

Annual License Fees Billed Untimely

The Department did not bill annual license fees until 2 months past the required date. NAC 581.285 requires the Department to send an annual renewal notice by August 1st for each licensed commercial weighing or measuring device in use.

However, staff did not begin sending the renewal notices until the middle of October 2004. Timely collection of these fees are important to support the Department's program for inspecting and ensuring the accuracy of commercial scales and other measuring devices used in places such as grocery stores and gasoline stations.

Because the Department did not bill annual license fees timely, total projected revenue from these fees was not received until about 3 months after the September 30th payment deadline established by regulation. Annual license fees, totaling about $570,000, should have been received by September 30, 2004; however, this amount was not reached until January 2005. Exhibit 4 shows the amount of license fees the Department collected from July 2004 through January 2005. The amounts shown for July through September 2004 were from other services such as inspection re-checks and new licenses.

Exhibit 4

Weights and Measures Program
License Fee Collections
July 2004 Through January 2005

Month	**Amount Collected** [1]
July 2004	$ 582
August 2004	3,531
September 2004	12,977
October 2004	15,209
November 2004	387,179
December 2004	121,536
January 2005	43,056
Total	**$584,070**

Source: State's accounting system.

[1] Amount includes payments from annual license fees, new license fees, and other services such as inspection re-checks.

According to staff, bills were mailed late because of difficulties in transferring billing information into the state's accounting system. Difficulties occurred because it was the first time annual billings were sent for this program. However, the annual billing process was approved in 2003. Therefore, staff had sufficient time to work on billing issues before the August 2004 billing deadline.

Weak Collection Efforts

The Department did not actively pursue the collection of unpaid license fees. Although businesses did not always pay their fees within 30 days after receiving their annual renewal notice, collection efforts were not taken by staff. As of January 2005, about $14,800 in license fees were unpaid, mostly from bills sent in October 2004.

Although the Department has ample collection methods available to compel businesses to pay their fees, accounting and program staff have not implemented available collection methods. For example, accounting staff did not notify businesses of required penalties if they did not pay timely. NAC 581.295 requires the Department to impose a late fee equal to 50% of the amount due if the fee is not paid within 30 days after receipt of the bill. Furthermore, the Department can suspend device licenses if fees are not paid. However, information regarding non-payers is not readily available to program staff so they can take enforcement action.

Seed Certification Program Records Need Improvement

Recordkeeping for the seed certification program needs improvement. For the 2004 growing season, program records were kept unorganized in a file folder. Although program staff tracked some seed certification activity in several databases, these databases were not complete. As a result, the Department lacks assurances it collects payments for all seed certification activity. For example, one invoice for $1,210 in seed certification services was outstanding for over 1 year.

A lack of policies and procedures combined with staff turnover contributed to weaknesses in recordkeeping for seed certification activities. Policies and procedures would help ensure regulations are followed and help new staff consistently manage the program. For example, NAC 587.254(3) requires payment be submitted at the time of application for a seed certification. However, staff sometimes conduct inspections and then send bills to the grower instead of collecting payments with the application. If this regulation was implemented, the Department should not have any outstanding receivables for seed certification services.

During fiscal year 2004, the Department collected over $26,100 in fees from seed certifications. Seed certifications are a service the Department performs for a grower of seed, such as alfalfa. Growers can obtain a better price when selling their seed if it is certified as in good condition by a seed certifying agency. State law designates the Department as the official seed-certifying agency for the State of Nevada.

Centralized Billing and Collection Activities Would Improve Oversight

The Department can improve its billing and collection process by centralizing accounting activities. Responsibilities for billing and collecting program fees are scattered amongst the various Divisions and offices throughout the State. As a result, employees responsible for program activities also perform accounting duties, typically without adequate administrative oversight. The lack of oversight of these activities has contributed to numerous billing and collection problems noted in this report.

During our testing of fees for 10 programs, we identified a variety of billing and collection processes in place. For example:

- Billing and collection activities were performed by program staff for 7 of 10 programs we reviewed. For instance, a sworn agricultural enforcement officer in Las Vegas performs almost all billing and collection activities for the Nursery License program.

- Program fees were billed using several different billing systems and computer software. Of the 10 programs tested, 4 programs used the state's accounting system, 4 programs used a Paradox database, and 2 programs used Microsoft Access.

- Program revenues were collected and deposited by offices in Elko, Las Vegas, and Reno. However, three programs had customers send payments to a bank lockbox for deposit.

In several instances, billing and collection processes have evolved over a period of years without adequate oversight. According to accounting staff, billing and collection processes were decentralized in prior years because the accounting unit had only a few staff. However, now that the accounting unit has eight positions, it should be able to centralize more billing and collection activities.

Recommendations

1. Establish policies and procedures for implementing the head tax collection provisions of NRS 575, including not issuing a brand inspection certificate to livestock owners delinquent in paying head tax.

2. Charge brand transfer and rerecording fees in compliance with Department regulations and policies.
3. Develop policies and procedures for identifying unlicensed landscapers, communicating license requirements, and enforcing state laws related to nursery licenses.
4. Pursue timely collection of past due accounts, ensure written agreements are in place for significant services, and discontinue services to customers who do not pay.
5. Bill weights and measures fees when required, notify license holders about late fees if payments are untimely, and actively pursue collection of past due accounts.
6. Evaluate the Department's billing and collection process and centralize accounting duties and oversight activities to the extent possible.

Numerous Accounting Adjustments After Year-End

The Department made numerous accounting adjustments after the end of fiscal year 2004. Between July and September 2004, accounting staff prepared 266 journal vouchers totaling more than $750,000. This included one adjustment that prevented $48,833 from being reverted to the state's General Fund. The number and amount of accounting adjustments indicates that better controls over accounting activities are needed.

Numerous Accounting Adjustments

About 40% of the Department's accounting adjustments for fiscal year 2004 occurred after the end of the year. Many adjustments occur because the Department has not provided adequate supervision and review to ensure accounting transactions are recorded correctly the first time. These adjustments take staff time away from other responsibilities because of the amount of work involved to prepare a journal voucher.

To adjust accounting records, staff prepare a journal voucher. The journal voucher is a manually prepared accounting document used by all state agencies. When journal vouchers are used to correct errors, multiple entries are required. First, staff need to correct the error by reversing the original entry. Then, staff must prepare the correct entry. This task is time consuming because all journal voucher entries must be re-entered into the state's accounting system. Furthermore, this document requires various reviews and approvals before the adjustment is made. Exhibit 5 shows an example of the entries required for one of the Department's journal vouchers to make corrections to the budget account and expenditure category.

Exhibit 5

Example of Entries Required for One Journal Voucher

Fund	Agency	Organization	Budget Account	Expenditure Category	General Ledger	Job Number	Dollar Amount
101	550	0400	4540	25	8795	10664W4	-$4,000
101	550	0400	4540	03	8795	10664W4	-$3,800
101	550	0400	4540	25	8795	10664W4	-$2,850
101	550	0400	4540	25	8795	10664W4	-$2,200
101	550	0400	4540	03	8795	10664W4	-$1,000
101	550	0400	4552	25	8795	10664W4	$1,000
101	550	0400	4552	25	8795	10664W4	$2,200
101	550	0400	4552	25	8795	10664W4	$2,850
101	550	0400	4552	25	8795	10664W4	$3,800
101	550	0400	4552	25	8795	10664W4	$4,000

Source: State's accounting records.

Between July and September 2004, the Department prepared 266 journal vouchers containing 1,222 adjustments. These adjustments totaled more than $750,000, or about 40% of the adjustments made during the year. Exhibit 6 shows the number of journal vouchers, adjustments, and dollar amount for fiscal year 2004.

Exhibit 6

**Number of Journal Vouchers,
Adjustments, and Dollar Amount
Fiscal Year 2004**

Quarter	Time Period	Number of Journal Vouchers	Number of Adjustments	Dollar Amount	Percent of Total Dollar Amount
1	July - September 2003	12	69	$9,198	0.5%
2	October - December 2003	80	349	$387,181	19.8%
3	January - March 2004	165	637	$501,486	25.7%
4	April - June 2004	150	774	$284,208	14.6%
Closing	July - September 2004	266	1,222	$769,267	39.4%
	Total	**673**	**3,051**	**$1,951,340**	**100.0%**

Source: LCB Audit analysis of journal voucher entries in the state's accounting system.

As shown in Exhibit 6, the Department made more than 3,000 adjustments to its accounting records for fiscal year 2004, totaling almost $2 million. Approximately $500,000 in adjustments were needed to allocate administrative costs according to the Department's cost allocation plan. However, the number and amount of accounting adjustments after the year end indicates better controls are needed.

Money Not Reverted to the State's General Fund

The Department made an adjustment to its accounting records which prevented $48,833 from reverting to the state's General Fund for fiscal year 2004. The Department kept this money by transferring it from its Administration Account to an account that is not required to revert money. During our audit the Department provided an analysis indicating it now believes $21,187 of the $48,833 should be reverted to the General Fund from fiscal year 2004. However, we have concerns with the Department's analysis and its revisions to cost allocation amounts approved by the Legislature through the budget process.

For fiscal years 2002 through 2004, the Department transferred the legislative approved cost allocation amount from its Grade and Certification Account to its Administration Account; however, it made a year-end adjustment to reverse the amount transferred in 2004. Therefore, the Grade and Certification Account did not participate in the cost allocation process for 2004. The cost allocation process is intended to distribute administration costs equitably among the Department's accounts and programs. This allocation is important because about 50% of the Administration Account is funded by cost allocation transfers. Exhibit 7 shows cost allocation transfers to the Administration Account from the Grade and Certification Account for fiscal years 2002 through 2004.

Exhibit 7

Grade and Certification Account
Cost Allocation Transfers to Administration Account
Fiscal Years 2002 to 2004

Fiscal Year	Legislative Approved Transfer	Amount Transferred	Year-End Adjustments	Total Cost Allocation Transfer
2002	$32,220	$32,220	$ 0	$32,220
2003	$33,470	$33,470	$ 0	$33,470
2004	$48,833	$48,833	-$48,833	$ 0

Source: State's accounting system.

As shown in Exhibit 7, the Legislature approved the transfer of $48,833 to the Administration Account from the Grade and Certification Account during 2004. Although the Department transferred $48,833 during the year, this amount was transferred back to the Grade and Certification Account after the end of the fiscal year. Therefore, the net transfer to the Administration Account from this account was zero. Exhibit 8 shows the dates and dollar amounts of cost allocation transfers for the Grade and Certification Account for fiscal year 2004.

Exhibit 8

Grade and Certification Account
Cost Allocation Transfers
Fiscal Year 2004

Type of Transfer	Date	Amount
Cost Allocation Transfer to Administration Account	12/23/2003	$24,416.50
Cost Allocation Transfer to Administration Account	04/29/2004	$12,208.25
Cost Allocation Transfer to Administration Account	07/09/2004	$12,208.25
Adjustment to Reverse Transfers	08/06/2004	-$48,833.00
Net Amount Transferred		**$ 0.00**

Source: State's accounting system.

According to internal accounting records, the Department transferred the $48,833 back to the Grade and Certification Account because of a shortfall in revenue due to non-payments from customers. Because this transfer was made to temporarily resolve a collection problem in this budget account, staff did not adjust cost allocation amounts paid by other budget accounts. Therefore, budget accounts for other agricultural services paid administration costs while the Grade and Certification Account did not pay anything.

The year-end adjustment to the Administration Account reduced the amount of money reverted to the state's General Fund. Because the Administration Account receives a General Fund Appropriation, any remaining funds in that account revert back to the General Fund at the end of each fiscal year. During fiscal year 2004, the Administration Account reverted $37,443 to the General Fund. However, an additional $48,833 would have also been reverted if it had not been transferred to the Grade and Certification Account, which is a non-reverting account. For non-reverting accounts, cash balances on hand at the end of the year are carried forward to the next fiscal year. After transferring the $48,833 back to the Grade and Certification Account, this account had a cash balance of $134,306 at the end of fiscal year 2004.

During our audit, the Department prepared an analysis indicating it now believes $21,187 should be transferred from the Grade and Certification Account to the General Fund. However, we have concerns with this analysis. A critical problem with the analysis is that it assumes a "Targeted Reversion" amount equal to the weighted average of stale claims for the prior 3 years, or $12,900. This assumption differs from the Legislature's long-standing practice of using General Fund money last. The Legislature's historical stance is that within accounts containing General Funds, fee revenues should be utilized first, and all remaining General Funds should be utilized last with funds remaining unspent at the end of the fiscal year being reverted to the state General Fund. Other concerns include changes in the allocation methodology and a reduction of $122,462 in the budgeted allocation amount approved by the Legislature.

Although management is aware of the Legislature's historical stance for using General Fund money last, they believe the Administration Account is an exception to this long-standing practice. Management also indicated they have not received guidance on closing the budget, and the process to close the budget account is not well documented and has varied from year to year.

We believe that none of the $48,833 belongs in the Department's Grade and Certification Account. First, the Legislature's historical stance that fee revenues should be utilized first, and all remaining General Fund money should be utilized last should be applied to all accounts with General Fund money. Because cost allocation amounts are generated from fee revenues, this principle should apply to the Department's Administration Account. Second, the Department's budget was approved by the Legislature based on the allocation of a certain amount of costs to the Administration Account. Although cost allocation plans should be revised if significant changes take place, the revision should be: 1) prepared timely, 2) properly documented, 3) consistently applied, and 4) communicated to budget officials.

Recommendations

7. Provide additional supervision and review over accounting activities to help minimize the number of accounting adjustments after year-end.
8. Transfer $48,833 from the Grade and Certification Account to the General Fund.
9. Seek guidance from Legislative Branch and Executive Branch officials on adjusting the Department's cost allocation plan during the year and closing the Administration Account at the end of each year.

Program Cost Information Is Not Available

The Department does not adequately track what it costs to operate specific programs within each division. Complete cost information was not readily available for any of the 10 programs we reviewed. Therefore, management does not have relevant, reliable, and timely information regarding its programs. Tracking program costs will provide management and other decision-makers with the information necessary to make informed decisions. This includes information to set fees at the appropriate level and control program costs.

Without adequate cost information, the Department does not have the information it needs to properly set fees. For the 10 programs we reviewed, management could not provide documentation supporting why the fees were set at the current level. If fees are not set at the appropriate level, programs may over-recover costs while others may under-recover costs. Furthermore, management does not know whether state appropriations are used to subsidize fee-based programs or whether fee-based programs reduce the need for appropriations.

The Department also has little information on whether it is achieving its funding goals and controlling program costs. For example, the goal for the Nursery License program is to fund the program with 50% user fees and 50% General Fund revenue. Because this program collected $120,840 in fees for fiscal year 2004, total costs for the program should be approximately twice this amount, or approximately $240,000. However, the Department recorded only $5,302 in expenditures to the Nursery License program for fiscal year 2004. According to the Department, costs such as personnel and administrative overhead are not specifically charged to the Nursery License program. Therefore, the Department lacks information on the amount of general funds versus user fees it expended on the program.

Because the efforts of tracking program expenditures should not exceed the benefits derived from the information, the Department needs to develop an efficient method of tracking costs. Program cost information can be improved by fully utilizing the capabilities of the state's accounting system to identify, allocate, and accurately record the costs of operating each of its programs. For some programs, the Department is already doing much of the work when recording costs in the state's accounting system; however, the costs for several programs are often recorded to the same job code which prevents the generation of detailed cost reports. Furthermore, staff have not developed an efficient method for allocating personnel costs among various programs.

Recommendation

10. Utilize the state's accounting system to efficiently track the costs of operating significant programs.

Inadequate Controls Over Payments Received

The Department has not established adequate controls over payments received. Control weaknesses include: 1) inadequate safeguarding of payments, 2) poor separation of accounting duties, 3) collections not compared to deposits, and 4) payments deposited untimely. Controls in this area are important because the Department collected and deposited more than $3.8 million during fiscal year 2004. Without proper safeguards in place, loss could occur and go undetected.

Inadequate Safeguarding of Payments

The Department did not adequately restrict access to payments received at its Elko and Las Vegas offices. In the Elko office, payments are kept in a locked cabinet; however, the key to the cabinet is hung on an employee's wall and is accessible to anyone in the building. In the Las Vegas office, payments are kept in a locking cabinet, but the key is kept in a location known to most staff. Therefore, anyone who knows the location of these keys has access to cash receipts. The risk of cash receipts being stolen increases with the number of people who have access to safekeeping devices.

State Accounting Policies and Procedures recommend entry to safekeeping devices be limited to as few people as possible. In addition, NRS 353A.020 requires a plan which limits access to assets of the agency to persons who need the assets to perform their duties. Access to cash receipts has not been restricted because the Department's policies and procedures do not address controls over safeguarding of receipts.

Poor Separation of Accounting Duties

Accounting duties for billing, collecting, recording, and depositing revenues were not adequately separated among employees. During our audit, we found the following separation of duties weaknesses in the Elko, Las Vegas, and Reno offices:

- Elko Office – Staff who perform program activities also opened the mail, recorded payments, made deposits, and entered information into program records. In addition, the same staff were responsible for billing and collecting accounts receivable.

- Las Vegas Office – An employee for one program received payments, prepared receipts, and entered information into program records. The same employee was also responsible for billing, collecting, and enforcing program activities.

- Reno Office – Program staff were responsible for billing and collecting accounts receivable for some programs. In addition, one staff person performed all deposit related activities.

State accounting procedures recommend the responsibilities for billing, collecting, and recording revenues be separated among individuals when possible. Also, NRS 353A.020 requires agencies to appropriately segregate duties to safeguard the assets of the agency. Without separation of duties, fee revenue is susceptible to loss without being detected. These weaknesses occurred because the Department has allowed the revenue collection and deposit processes to develop without providing adequate guidance such as policies and procedures.

Collections Not Compared to Deposits

The Department did not have a process in place to verify that all payments collected were deposited. The total amount of payments received each day was not adequately documented and then compared against deposits by someone independent of the receipt and deposit process.

- Reno Office – Payments were recorded on a computer spreadsheet that could be modified at anytime by several employees without supervisory review or approval. Amounts collected at this office were not verified against deposits by someone independent of the receipt and deposit process.

- Elko Office – Revenue logs did not always indicate the date payments were received. In addition, amounts collected at this office were not verified against deposits by someone independent of the receipt and deposit process.

- Las Vegas Office – Management compared the amount deposited with a deposit report. However, the total amount recorded on cash receipt forms was not established and reconciled to deposits. In addition, staff did not account for the numerical sequence of receipt forms issued.

Good internal controls require the total amount of payments received each day be recorded and verified against deposits by someone independent of the receipt and deposit process. Without verifying collections against deposits, the Department lacks assurance all payments it collects are deposited. A verification process is not in place because staff at the offices where payments are collected do not have adequate guidance such as policies and procedures.

Payments Deposited Untimely

Payments were not always deposited timely in accordance with state laws. We found 41 of 175 payments tested were not deposited timely. Most of the untimely deposits were 1 day late, on Friday rather than Thursday. NRS 353.250(2) requires state agencies deposit revenues on Thursday of each week for all money received during the previous week. In addition, we found the Department did not always deposit collections totaling over $10,000 by the next business day as required by NRS 353.250(3). This occurred four times for the deposits we reviewed.

The late deposits were from offices in Elko, Las Vegas and Reno. The Las Vegas office's practice is to deposit revenue receipts 1 day late on Friday due to a misunderstanding of the law. Deposits were untimely in the Elko and Reno offices because polices and procedures do not clearly indicate that payments should be deposited on Thursday of each week.

Recommendation

11. Develop policies and procedures to ensure payments are safeguarded, accounting duties are separated, receipts are reconciled to deposits, and revenues are deposited timely.

Equipment Inventory Not Adequately Safeguarded

The Department has not adequately safeguarded its equipment inventory that totaled more than $5 million in fiscal year 2004. Inventory records were inaccurate for 36 of 85 items we tested. This includes 13 missing items that cost over $30,000 when purchased. Although state laws and regulations require agencies to maintain accurate inventory records, staff have not ensured an annual inventory is conducted and records are updated each year.

During our testing of the Department's equipment, we found inventory records were not accurate for 36 of 85 items tested. For example:

- Staff were unable to locate 13 items we tested, costing over $30,000.
- Staff did not prepare equipment disposition records timely for four items we tested. For example, two items costing $1,219, and $639 were reported stolen in 1999 and 2000. However, staff did not correct inventory records until we inquired about these items during our audit.
- The Department's inventory records did not show the correct office location for 19 of 85 items we tested. These items were found at other offices throughout the State.

Exhibit 9 identifies the missing items from our testing and the cost when purchased.

Exhibit 9

Missing Equipment Inventory Items

	Description	Asset Cost	Year Acquired
1	Scale	$ 500	1972
2	Weights and Measures Balance	850	1972
3	Transceiver	1,127	1974
4	Transceiver	1,127	1974
5	Computer	1,359	1999
6	Computer	1,384	1999
7	Gas Pump Test Equipment	1,710	1973
8	Computer	1,853	1997
9	Computer	2,230	1996
10	Computer	2,302	1997
11	Trailer Load Packer	2,388	1976
12	Binocular Microscope	4,519	1981
13	Data Collector	9,094	1995
	Total	**$30,443**	

Source: Inventory records, Department of Agriculture.

Although a physical inventory count was started in 2004, inventory records were never adjusted to reflect dispositions, transfers, and missing items. Inaccurate records also lead to inefficiencies in the inventory process. When records are not up-to-date, staff may spend many hours looking for items that have been disposed of in prior years.

The Department's procedures require a physical inventory of equipment be conducted annually and differences be investigated and resolved. In addition, state laws and regulations require agencies to maintain accurate inventory records. For example, NRS 333.220 requires agencies to maintain records of property at all times. This includes conducting an annual physical count of all personal property and reconciling the results of the count to the inventory records maintained by the State Purchasing Division. A list should be submitted to the Purchasing Division at the end of each month for all personal property that was lost, stolen, exchanged, or deemed excess. Furthermore, SAM 1538 states that personal property may only be disposed of with the Purchasing Division's written authorization and excess property should be reported to the Purchasing Division using a property disposition report.

Recommendation

12. Conduct a complete inventory count annually and update inventory records to reflect only those items still in the possession of the Department.

Opportunities to Improve Efficiency

The Department can increase its efficiency by reviewing and revising its accounting practices. For example, the Department makes thousands of small entries into its accounting records to allocate costs to different programs. In fiscal year 2004, staff made 3,584 entries for less than $10 when processing journal vouchers, payment vouchers, and purchase orders. In addition, staff make unnecessary entries into accounting and program records when recording payments. We estimate staff made over 100,000 entries, such as check number or deposit number that either duplicate another entry or did not improve controls when recording payments. Finally, the

Department needs to update and distribute policies and procedures to guide staff in conducting their activities.

Many Small Accounting Entries

Accounting staff make thousands of small entries into its accounting records when processing purchase orders, payment vouchers, and journal vouchers. We identified that 3,584 of 15,062 entries were for less than $10 in fiscal year 2004. This includes 1,420 entries for less than $2. Many small entries are made to accounting records because staff allocate costs too frequently, often for each purchase transaction.

The Department has a complex cost allocation process where it allocates each payment made to a number of different accounts or programs. Costs are allocated when staff prepare accounting documents such as a purchase order, payment voucher, or journal voucher. To allocate costs, staff enter the amount to be allocated into a spreadsheet containing the allocation formula. The formula breaks out the costs each account or program is to be charged. Then, staff enter this information along with other information such as job number into the state's accounting system. For example, Exhibit 10 shows how the Department allocates its monthly telephone service charge for one office.

Exhibit 10

Department of Agriculture
Example of Cost Allocation

Fund	Agency	Organization	Budget Account	Category	General Ledger	Job Number	Dollar Amount
101	550	0500	4537	04	7290	GASPOLL	$0.10
101	550	0400	4540	04	7290	PLANT	$0.26
101	550	0400	4540	22	7290	PCO	$0.16
101	550	0400	4541	14	7290	10025Q3	$0.05
101	550	0500	4551	04	7290	WM	$0.43
101	550	0400	4552	21	7290	10025F3	$0.05
101	550	0100	4554	04	7290	ADMIN	$0.05
	Total						**$1.10**

Source: State's accounting records.

As shown in Exhibit 10, accounting staff allocated the $1.10 charge seven different ways. To accomplish this allocation, staff had to make 49 entries into the state's accounting system such as job numbers and amounts.

Numerous small accounting entries are made because the Department has not developed an efficient system to allocate certain costs. Although it is important to charge costs to the correct program, the cost of the allocation process should not exceed the benefits derived from the allocation. According to federal cost allocation principles, the essential consideration in selecting a cost allocation method or base is that it is the best one suited for allocating costs in accordance with the benefits derived. As such, the Federal Government allows a variety of cost allocation methods. By reviewing and revising the way costs are allocated among budget accounts and programs, the Department can increase the efficiency of its accounting unit. For example, staff could accumulate certain costs in an overhead account and then allocate the costs to the correct program when necessary or at the end of the year.

Unnecessary Entries Into Records

Department staff make many unnecessary entries into accounting and program records when recording payments. We estimate staff made over 100,000 unnecessary entries, such as duplicate check numbers, deposit numbers, and amounts, into these records during fiscal year 2004. We identified unnecessary entries at the Department's three offices where most revenue is collected and deposited. For example:

- Las Vegas Office – A multi-copy receipt form was prepared for all payments received by mail or in person. However, staff then copied all information on the receipt form to a detailed deposit report showing the payer, date paid, receipt number, check number, payment amount, and who prepared the receipt. The detailed report duplicates work and is not necessary to make a deposit.

- Elko Office – Staff prepared a revenue log for all payments received. This included the payer, amount, and check number. However, for many payments the check number, amount, payment date, and treasurer's deposit number was entered on a remittance form, which was also date stamped when received. In addition, deposit information, such as deposit numbers and dates, was duplicated in the program records. The detailed deposit information entered on the remittance form and duplicated in program records is not necessary to improve internal controls.

Unnecessary entries are made because revenue recording processes have been developed independently at each office without adequate policies and procedures and management review. Internal control standards recommend that management should design and implement internal controls based on the related cost and benefits.

Policies and Procedures Are Needed

The Department lacks adequate policies and procedures to guide its financial activities. We found policies and procedures are outdated and have not been revised in many years. In addition, staff in the Las Vegas and Elko offices could not locate a copy of the procedures when we visited these offices. The lack of written policies and procedures has contributed to numerous control weaknesses identified in this report.

NRS 353A.020(3) requires each agency to develop written procedures to carry out their system of internal accounting and administrative control. This system of control includes procedures which effectively control the accounting of revenues, ensure programs comply with laws and regulations, and operations are efficient. Furthermore, agencies are required to periodically review their system of control to ensure it is working as intended.

Recommendations

13. Review accounting practices related to cost allocations and payment processing and eliminate those practices that are inefficient, unnecessary, or do not improve internal controls.
14. Update policies and procedures and distribute copies to staff responsible for financial activities.

Appendices

Appendix A

Audit Methodology

To gain an understanding of the Department of Agriculture, we reviewed laws, regulations, and policies and procedures significant to the Department's operations. We also reviewed the agency's financial information, budgets, minutes of various legislative committees, and other information describing the activities of the Department. In addition, we interviewed Department management and staff on their responsibilities and duties to carry out the Department's mission. We documented and assessed the Department's controls for billing and collecting revenue, tracking program costs, recording financial transactions, and safeguarding equipment.

To evaluate the Department's billing and collection processes, we selected 10 programs or services the Department manages based on the amount of fee revenue collected and program significance. The 10 programs and services we selected were:

1. Brand Rerecording
2. Fertilizer Tonnage/Registration
3. Livestock Assessment (Head) Tax
4. Livestock (Brand) Inspection
5. Nursery License
6. Pest Control Operator License
7. Pesticide Registration
8. Seed Certification
9. Shipping Point Inspection
10. Weights and Measures

We interviewed management and staff responsible for the 10 programs on how they identify those entities applicable to paying a fee, generate and send billings, collect payments, and follow-up on non-payers. Then, we evaluated the various billing and collection processes used for the 10 programs at offices throughout the State where payments are collected and deposited. This involved reviewing program related documentation, information in program databases, and accounting records. We also identified areas where the Department could improve its collections for these programs. To test fee payments for the 10 programs, we selected 175 billable fees for fiscal year 2004. We reviewed these items for payment collection, proper payment amount, and deposit timeliness. We also tested and evaluated internal controls over revenues at each office. In addition, during our visits to the Department's offices where money is collected and deposited, we observed the safeguarding of payments received.

We also reviewed the Department's process for tracking program costs. This included comparing the differences between revenues and expenditures recorded during fiscal year 2004 for the 10 programs we reviewed. We also compared the revenues and expenditures with the Department's funding goals for these programs, and we discussed the tracking of program costs and fee setting process with Department management. Furthermore, we requested the Department provide us documentation on how fees were set.

To analyze financial transactions and accounting adjustments, we obtained an electronic download of all financial transactions initiated by the Department during fiscal year 2004 from the state's accounting system. Then, we sorted the transactions by type such as journal voucher, payment voucher, and decentralized purchase order. After sorting, we analyzed the transactions for number of accounting entries and entry dollar amounts. This included reviewing the Department's cost allocation practices. We also determined the number of journal vouchers and dollar amount of adjustments that took place for fiscal year 2004. Furthermore, we reviewed payment receipt documentation in the Department's Elko, Las Vegas, and Reno offices and determined the number of duplicate or unnecessary entries made into these records. Our review also included payment and deposit information entered into program records such as databases.

To evaluate the Department's safeguarding of equipment we obtained and reviewed the agency's inventory listing for fiscal year 2004. We selected 85 items on the list: 20 in the Elko office, 20 in the Las Vegas office, 25 in the Reno office, and 20 in the Sparks office. Our selection was based on dollar amount, significance, and susceptibility to theft. After selecting the items, we visited the offices to verify the existence of the items. For those items staff could not find, we requested Department management indicate to us in writing the disposition of the items. We also discussed with Department management and staff the process used to inventory and dispose of assets. This included reviewing asset disposal documentation.

Our audit work was conducted from July 2004 to June 2005, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the State Department of Agriculture. On January 24, 2006, we met with Department officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix D which begins on page 43.

Contributors to this report included:

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Appendix B

Prior Audit Recommendations

As part of our audit, we requested the State Department of Agriculture determine the status of the six recommendations made in our 1997 audit. The Department indicated that all six recommendations had been fully implemented. We determined two recommendations were fully implemented and four were partially implemented. We have modified and repeated the four partially implemented recommendations in this audit report. The four recommendations involve reviewing funding levels periodically to ensure they remain sufficient to achieve funding goals; utilizing the state's accounting system to fully identify, allocate, and accurately record all costs to operate each program; allocate all indirect costs on a consistent and logical basis; and develop cost reports to help management monitor program activities and facilitate informed decisions.

Appendix C

Schedule of Department Programs/Services by Division

Administration Division

- Agriculture License Plates
- Junior Agriculture Loan Program
- Junior Livestock Show Board
- Marijuana Health Registry
- Rangeland Resources Commission
- Support Services to Department
- USDA Certified Mediation Program

Animal Industry Division

- Cooperative Disease Program With USDA
- Dog Bite Program
- Educational Outreach
- Equine Infectious Anemia (EIA) Testing
- Foreign Animal Disease Surveillance
- National Animal Health Laboratory Network (NAHLN)
- National Animal Identification System Program
- Public Health Cooperative Programs
- Virginia Range Estray Horse Program
- Zoonotic Disease Testing

Livestock Identification Division

- Agriculture Law Enforcement
- Annual and Lifetime Horse Transportation Permits
- Brand Inspection of Livestock
- Brand Registration
- Collection of Beef Promotion and Research Funds
- Collection of Livestock Head Tax
- Estray Livestock
- Livestock and Farm Products Buyers and Dealers Licensing

Appendix C

Schedule of Department Programs/Services by Division (continued)

Public Livestock Auctions and Special Sales

Theft Investigations

<u>Measurement Standards Division</u>

Consumer Complaint Investigations

Device Testing and Licensing

Motor Fuel Quality Testing

Packaging Inspections

Price Verification

Public Weighmaster and Registered Service Agent Licensing

Standards Calibration and Metrology Laboratory

<u>Plant Industry Division</u>

Antifreeze Registration

Conditional Inspection of Produce

Educational Outreach

Fertilizer Registration

Livestock Feed Labeling

Noxious Weed Control

Noxious Weed Control (NDOT)

Nursery Licensing

Organic Certification

Pest Control Operator Licensing

Pesticide Registration

Phytosanitary Certification and Export Inspections

Plant and Pest Quarantines

Producer Certification

Quarantine Survey

Seed Certification

Appendix C

Schedule of Department Programs/Services by Division (continued)

Strychnine Paste Registration and Sales

UC-Davis Western Pest Detection Network

USDA Egg Grading

USDA Egg Surveillance

USDA Funded Cooperative Pest Surveys

USDA Mormon Cricket and Grasshopper Control

USDA Pesticide Recordkeeping Program

USDA Shipping Point Inspection

US EPA Pesticide Certification

US EPA Pesticide Enforcement

US Forest Service Weed Management

Weed Free Forage Certification

Resource Protection Division

Control of Predatory and Migratory Animals

Education and Outreach

Minimizing Wildlife Threats to Public Health and Safety

Protect Endangered and Threatened Species

Source: Department of Agriculture.

Appendix D

Response From the State Department of Agriculture

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Governor

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February 6, 2006

Paul V. Townsend, CPA, Legislative Auditor
Legislative Counsel Bureau
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Dear Mr. Townsend,

Thank you for discussing our concerns during the exit interview on January 24, 2006, and we appreciate your flexibility to incorporate our comments in the audit document. The Department of Agriculture accepts the fourteen audit recommendations, and will provide a detailed response to each recommendation in the action plan.

The audit points out the need to revisit our existing policies and to ensure our procedures are consistent with Nevada Revised Statutes (NRS), Nevada Administrative Code (NAC), and also our own policies. Over time, business practices may need to change to meet the current regulatory environment, as authorized by NRS and NAC. This necessitates having a method and the means to actively review our policies and procedures on a regular basis.

Many of our Department practices have evolved from providing services to a growing customer base without large increases in staff. We continually try to use our staff more efficiently, however, the audit demonstrates that we do need to review job duties periodically and ensure that we meet the need for separation of duties and current internal controls.

Just as we need to regularly review our policies and procedures, we must also review our actions, and determine if the policies and procedures have the intended results.

The Department believes the audit is a tool we can use to improve our operations, and we appreciate the opportunity to provide better services to the citizens of Nevada.

Sincerely,

Don Henderson

Don Henderson
Director

State Department of Agriculture
Response to Audit Recommendations

Recommendation Number		Accepted	Rejected
1	Establish policies and procedures for implementing the head tax collection provisions of NRS 575, including not issuing a brand inspection certificate to livestock owners delinquent in paying head tax..........................	X	
2	Charge brand transfer and rerecording fees in compliance with Department regulations and policies.	X	
3	Develop policies and procedures for identifying unlicensed landscapers, communicating license requirements, and enforcing state laws related to nursery licenses	X	
4	Pursue timely collection of past due accounts, ensure written agreements are in place for significant services, and discontinue services to customers who do not pay...	X	
5	Bill weights and measures fees when required, notify license holders about late fees if payments are untimely, and actively pursue collection of past due accounts	X	
6	Evaluate the Department's billing and collection process and centralize accounting duties and oversight activities to the extent possible	X	
7	Provide additional supervision and review over accounting activities to help minimize the number of accounting adjustments after year-end........................	X	
8	Transfer $48,833 from the Grade and Certification Account to the General Fund	X	
9	Seek guidance from Legislative Branch and Executive Branch officials on adjusting the Department's cost allocation plan during the year and closing the Department's Administration Account at the end of each year..	X	
10	Utilize the state's accounting system to efficiently track the costs of operating significant programs.................	X	

State Department of Agriculture
Response to Audit Recommendations
(continued)

Recommendation Number		Accepted	Rejected
11	Develop policies and procedures to ensure payments are safeguarded, accounting duties are separated, receipts are reconciled to deposits, and revenues are deposited timely	X	
12	Conduct a complete inventory count annually and update inventory records to reflect only those items still in the possession of the Department	X	
13	Review accounting practices related to cost allocations and payment processing and eliminate those practices that are inefficient, unnecessary, or do not improve internal controls	X	
14	Update polices and procedures and distribute copies to staff responsible for financial activities	X	
	TOTALS	14	0