

# Audit Highlights



Highlights of Legislative Auditor report on the State Department of Agriculture issued on September 29, 2010. Report # LA10-18.

## **Background**

The regulation of Nevada's agricultural activities began in the early 1900's. The mission of the Department is to benefit the welfare of all persons residing in the State by encouraging the advancement and protection of Nevada's agriculture and related industries. 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 Department's main office is located in Sparks, Nevada. It has other offices located in Elko, Las Vegas, and Winnemucca. The Department was authorized 101 full-time-equivalent positions (FTE's) during fiscal year 2009, 80 FTE's for 2010, and 72 FTE's for 2011. For fiscal year 2009, the Department's primary sources of revenue were \$6.40 million in fees, \$3.20 million in General Fund appropriations net of reversions, and \$1.49 million in federal revenues. Expenditures totaled \$11.86 million during the year.

## **Purpose of Audit**

The purpose of our audit was to determine whether the cost allocation methods utilized to finance the various budgets within the Department are appropriate based on how the Department is organized and where program responsibilities are assigned. Our audit focused on reviewing the Department's alignment of payroll and other operating costs with the proper revenue sources from July 1, 2008 through December 31, 2009, and included activities through April 2010 for certain areas.

## **Audit Recommendations**

This audit report contains four recommendations to improve the Department's ability to track and monitor program costs and activities. We made two recommendations to help align payroll and other operating costs with the proper program and funding source. In addition, two recommendations relate to tracking program costs to ensure accurate information is available to monitor program activities. The Department accepted the four recommendations.

## **Status of Recommendations**

The Department's 60-day plan for corrective action is due on December 29, 2010. In addition, the six-month report on the status of audit recommendations is due on June 29, 2011.

# State Department of Agriculture

## **Results in Brief**

The Department did not always align its payroll and other operating costs with the proper program and funding source. During the 2009 Legislative Session, several adjustments were made to help align the Department's personnel costs and funding sources; however, more adjustments are needed. We estimate that about \$552,000 in annual personnel costs were not aligned with the appropriate funding source. In some instances, state revenue shortfalls have contributed to alignment problems because the duties of eliminated positions were redistributed among remaining staff. In addition, the Department collected about \$442,000 for fertilizer and antifreeze testing programs, but the fees collected during 2008 and 2009 were not used to perform required tests. Therefore, these fees are not aligned with expenditures.

The Department does not adequately track the cost of its programs. Without complete cost information, management and other decision-makers do not have the information necessary to make informed decisions when preparing the budget for each program. In addition, this information is important so that industry fees can be set at appropriate amounts. Furthermore, management needs to know which programs are self-supporting and which programs are subsidized by General Fund appropriations or fees from other programs. The Department can improve its cost information by fully utilizing the capabilities of the state's accounting system.

## **Principal Findings**

During our audit, we noted 10 positions that were not in proper alignment. We estimate about \$552,000 in annual personnel costs were not aligned with the appropriate funding source. These alignment issues involved employees that provided services for programs different from where their payroll costs were recorded. For example, the Nursery Program Manager's position is funded by General Fund dollars in Budget Account 4540. However, all other Nursery Program revenue and expenditures are recorded to Budget Account 4545, a non-General Fund supported account. Because of this misalignment, we estimate the General Fund subsidizes the Nursery Program by \$77,740.

The state's revenue shortfalls have forced the Department to make difficult decisions regarding the minimum staffing levels necessary to keep its programs functioning. Since 2009, the number of full-time-equivalent positions (FTE's) has decreased by 29%. To continue its programs and statutory mandates, the Department redistributed many duties of the vacant and eliminated positions to remaining personnel. In some instances, the redistribution of duties resulted in the misalignment of personnel costs.

The Department collects fees for registering and permitting fertilizer and antifreeze, but it has not performed required inspections of these products for several years. The inspections are intended to verify the quality of the product advertised and to ensure the product is safe for public use. During fiscal years 2008 and 2009, these fees totaled about \$442,000. Because the revenues were not aligned with intended program expenditures, the fees contributed to a reserve balance of \$1.48 million in the account where the fees were recorded. Of this amount, the Legislature established a reserve for the transfer of \$800,000 to the General Fund to help address the state's revenue shortfalls.

The Department did not maintain accurate financial information on the results of its programs. For example, the Department did not adequately track the financial operations of its Nursery Program and the Pest Control Operator Program. Because of concerns by the Legislature, the Department is required to submit quarterly reports to the Interim Finance Committee (IFC) identifying the reserve level for each program and the corresponding revenue and expenditure activity. Our analysis of the revenues and expenditures for these programs found the reports submitted to the IFC were not accurate. We estimate the Department overstated reserves for the Nursery Program and the Pest Control Operator Program by \$63,589 and \$34,895, respectively, through the quarter ended March 31, 2010.

Although the Department's Grade and Certification Budget Account (BA 4541) indicates its programs are self-supporting, we found the General Fund subsidizes these programs. For 35% of the inspections we tested, the employees that performed the inspections were funded by the General Fund in another budget account. Because personnel costs are not always charged to Budget Account 4541, this account's reserve balance had grown to \$78,130 at the end of fiscal year 2009.