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We have completed an audit of the State Department of Agriculture. This audit was authorized by the Legislative Commission on August 24, 2009. 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,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

August 20, 2010
Carson City, Nevada

STATE OF NEVADA
STATE DEPARTMENT OF AGRICULTURE

AUDIT REPORT

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EXECUTIVE SUMMARY

STATE DEPARTMENT OF AGRICULTURE

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

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.

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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

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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. (page 10)

- 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. In other instances, duties once funded by the General Fund are now funded by program fees and federal funds. Our review of 15 eliminated positions identified 5 positions where the duties once funded by the General Fund were redistributed to positions funded fully or partially by program fees or federal funds. (page 11)
- 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. (page 12)

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- 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. (page 14)
- 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. (page 18)
- The Department does not effectively use the state's accounting system to track program costs. The state's accounting and payroll systems have been designed to enable agencies to track detailed cost information; however, the Department has not consistently used these systems' capabilities. As a result, accurate information is not readily available for monitoring, reporting, and decision-making. The Department can improve its cost information by 1) aligning personnel costs with the proper budget account, 2) using unique job codes for each program, and 3) recording payroll expense to specific programs. (page 20)

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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. (page 32)

Agency Response

The Department, in response to the audit report, accepted the four recommendations. (page 28)

Introduction

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.

The 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 11 members, appointed by the Governor, that represent various sectors of Nevada's agricultural industry. The Board appoints the Director of the Department with the approval of the Governor.

To help accomplish its mission, the Department is organized into six divisions.

- Administrative – The Administrative Division provides oversight and guidance to other divisions, programs, and activities of the Department. The Division also provides accounting, payroll, personnel, planning, and fiscal services.
- Animal Industry – The Animal Industry Division is responsible for the diagnosis and eradication of quarantinable animal diseases in cooperation with federal agencies, private veterinarians and livestock owners. It is also responsible for the diagnosis and control of animal diseases that are of economic or public health significance.
- Livestock Identification – The Livestock Identification Division protects against livestock theft through the recording of brands used by livestock owners in the State. It also provides brand inspections which are required each time livestock change ownership, are shipped out of state or out of a brand inspection district, or prior to slaughter. The Division also manages stray livestock, enforces livestock laws, and investigates the theft of livestock.
- Measurement Standards – The Measurement Standards Division is responsible for the annual inspection and testing of all commercial devices used for buying, selling, and shipping of commodities. It inspects package goods for labeling, proper net content and price verification of computer based bar code systems. The Division's Petroleum Technology Bureau serves to ensure that consumers in Nevada have quality fuel that meets standards to minimize air pollution.

- Plant Industry – The Plant Industry Division licenses businesses that sell nursery stock, control pests, or sell Nevada grown agricultural products at farmers markets. Division laboratories sample, test and certify seeds, pesticides, fertilizers, and antifreeze. The Division also surveys and manages noxious weeds, plant disease, and insects and vertebrate pests of economic, environmental or public health concern.
- Resource Protection – The Resource Protection Division cooperates with the United States Department of Agriculture to form the Wildlife Services Program. The program is charged with helping solve problems that occur when human activity and wildlife are in conflict with one another.

Each of the six divisions is responsible for managing numerous programs. Appendix B provides a list of the programs within each division.

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. In addition, the Department uses several seasonal and intermittent positions to perform various inspection services, and labor for federal grants and cooperative agreements.

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. Exhibit 1 shows fiscal year 2009 expenditures for the 20 budget accounts managed by the Department.

**Expenditures by Budget Account
Fiscal Year 2009**

Account Name	Expenditures
Agricultural Administration	\$ 1,526,419
Agricultural Fines	48,477
Agricultural License Plates	18,100
Agricultural Registration and Enforcement	1,422,855
Agricultural Research and Promotion	22,755
Gas Pollution Standards	414,163
Grade and Certification of Agricultural Products	75,219
Junior Agricultural Loan	0
Livestock Inspection	1,125,031
Nevada Beef Council	250,599
Nevada Junior Livestock Show Board	33,224
Pest, Plant Disease, Noxious Weed	492,220
Plant Industry	1,618,672
Predatory Animal and Rodent Control	1,164,199
Rangeland Grasshopper and Mormon Cricket	301,719
Rangeland Resources Commission	164,613
USDA Specialty Crop Grant	66,287
Veterinary Medical Services	1,242,548
Weed Abatement and Control	73,146
Weights and Measures	1,801,648
Total	\$11,861,894

Source: State accounting system.

Scope and Objective

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 was authorized by the Legislative Commission on August 24, 2009, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Commission authorized this audit based on a request from the Chairs of the Assembly Committee on Ways and Means and the Senate Committee on Finance. The Committees expressed concerns that the Department of Agriculture may be misaligning its resources to compensate for revenue shortfalls incurred by various programs within the Department.

This 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. The objective 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 the program responsibilities are assigned.

Findings and Recommendations

Costs Not Always Properly Aligned With Funding Sources

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.

Personnel Costs Not Always Aligned With Appropriate Funding Source

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 Administrator for the Livestock Identification Division is funded partially by General Fund dollars in the Plant Industry Division budget account. Since this position no longer has duties associated with the Plant Industry Division, we estimate the General Fund subsidizes the Livestock Identification Division by \$56,187.
- The Administrator of the Measurement Standards Division performs Information Technology (IT) duties for the entire Department. Although an IT position was approved for the Administrative Division in 2009, the new position was left vacant. During the 2010 Special Session, the IT position was eliminated. We estimate the Measurement Standards Division subsidizes other divisions by \$51,675.

Appendix C, on page 26, shows details on the 10 positions not in alignment, including the estimated dollar amount for each position.

To the extent possible, the Department should align its payroll and other operating costs with the proper revenue source when developing its budget request for the 2011-13 biennium. We believe that most of the significant alignment issues can be resolved by moving positions to the proper program, moving programs and services to the proper budget account, or reimbursing programs or divisions for services performed. However, certain alignment issues may be difficult to resolve given the state's current revenue shortfalls. For example, an employee from the Measurement Standards Division provides general oversight of Plant Industry Division personnel in the Las Vegas Office. According to management, these duties will remain delegated to this employee until there is funding to hire a Southern Regional Manager in the Plant Industry Division.

State Revenue Shortfalls and Redistribution of Staff Duties

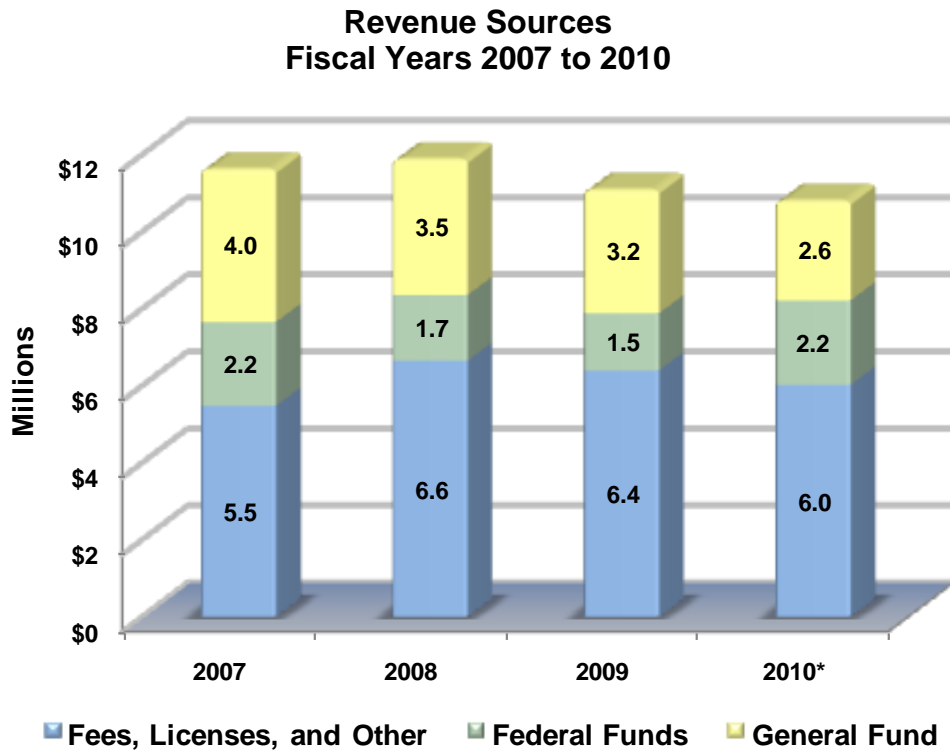
The state's revenue shortfalls have forced the Department to make difficult decisions regarding the minimum staffing levels necessary to keep its programs functioning. Since 2009, the number of full-time-equivalent positions (FTE's) has decreased by 29%. For fiscal year 2009, the Department was authorized 101 FTE's. During the 2009 Legislative Session the number of FTE's was reduced to 80, and the 2010 Special Session reduced the number of FTE's to 72.

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 and revenue sources as previously indicated. In other instances, duties once funded by the General Fund are now funded by program fees and federal funds.

Because of the redistribution of duties by the Department, the Legislature expressed concern that federal funds and industry fees collected by the Department may be used to supplement programs, staff, and services once supported by General Fund appropriations. Our review of 15 eliminated positions identified 5 positions where the duties once funded by the General Fund were redistributed to positions funded fully or partially by program fees or federal funds.

The state's revenue shortfalls have changed the funding structure of the Department. Exhibit 2 shows revenue sources for the Department for fiscal years 2007 to 2010.

Exhibit 2



Source: State accounting system.

Note: General fund revenues are net of reversions and reserve for reversions.

* Amount per state accounting system on June 30, 2010.

As shown in Exhibit 2, General Fund revenues decreased from \$4.0 million in 2007 to \$2.6 million in 2010, a decline of 35%. For 2010, the General Fund provided about 24% of the Department's total revenues.

Funding From Specific Sources Not Spent on Required Programs

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 at the end of fiscal year 2009 in the account where the fees were recorded.

Fertilizer Registration Fees

The Department collected about \$416,000 in fertilizer registration fees during fiscal years 2008 and 2009, but did not perform the required inspections. A person who offers a commercial fertilizer or agricultural mineral for sale or distribution must register each brand or grade before it is distributed in the State. NRS 588.230 requires the Director, who may act through an authorized agent, to inspect and test commercial fertilizers and agricultural minerals to determine whether they meet certain requirements. According to management, fertilizer samples have not been tested for several years due to higher priorities, staff turnover, and recent staff reductions.

Testing and analysis of commercial fertilizers is important for a variety of reasons, including the protection of public health and safety, domestic animals, and the environment. For example, fertilizers often contain concentrations of hazardous metals. These metals include arsenic, mercury, and lead. The State of Washington currently limits the concentration levels of nine hazardous metals and tests commercial fertilizers for compliance with maximum concentration levels.

Because of the importance of fertilizer testing, NRS 588.270 requires the Director to publish a report, at least annually, of the results of the analysis performed on samples of commercial fertilizers or agricultural minerals sold within the State. According to the Director, no annual report is available.

Antifreeze Registration Fees

The Department collected about \$26,000 in antifreeze registration fees during fiscal years 2008 and 2009, but did not perform the required inspections. Manufacturers, packers, sellers, or distributors must register any antifreeze sold in the State. Antifreeze samples are submitted to the Department during the annual registration and permitting process. NRS 590.380 requires the Department to annually inspect antifreeze sold in Nevada. According to management, staff perform a label review of antifreeze products, but no laboratory analyses has been performed due to prioritization of other duties and reduction of staff. The testing of antifreeze helps to protect consumers by ensuring antifreeze products meet standards for corrosion, freezing point, and boiling point.

The fees for fertilizer and antifreeze registration and testing contributed to a reserve balance of \$1.48 million at the end of fiscal year 2009 in the account where the fees were recorded. Because the account contained a significant reserve balance, the Legislature established a reserve for the transfer of \$800,000 to the General Fund to help address the state's revenue shortfalls.

Cost of Programs Not Adequately Tracked

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.

Program Cost Information Not Accurate

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.

During the 2009-11 biennium, the Department transferred these two programs from a General Fund supported budget account to a non-General Fund supported account. Although the transfer was approved by the Legislature, the Assembly Committee on Ways and Means and the Senate Committee on Finance (money committees) expressed concerns that these programs' revenues would not be able to

support the budgeted operating expenditures. Furthermore, the money committees issued a Letter of Intent that reserves from other programs could not be used as a subsidy for these programs because it would cause a misalignment in revenue sources and respective reserve balances.

As part of the transfer, the Department is required to submit quarterly reports to the IFC identifying each program's reserve level and revenue and expenditure activity. The first quarterly report was for the period July 1, 2009 through September 30, 2009. Our analysis of revenues and expenditures indicates the reports provided to the IFC do not include all revenues and expenditures. The primary cause of inaccurate program information relates to misalignment issues addressed earlier in this report.

Nursery Program Not Self-Supporting

Although the Department reduced staffing levels for the Nursery Program, the program is still not self-supporting when all costs are included. We analyzed the revenues and expenditures of the Nursery Program and found the program started to lose money by April, for the fiscal year ended June 30, 2010. This loss will continue to grow since most revenues are collected early in the fiscal year. Exhibit 3 shows estimated Nursery Program revenues and expenditures through April 30, 2010.

**Nursery Program
Fiscal Year 2010 Revenues and Expenditures
Cumulative Totals Through April 30, 2010**

Auditor Analysis

	Quarter 1 09/30/09	Quarter 2 12/31/09	Quarter 3 03/31/10	04/30/10
Revenues	\$144,780	\$157,075	\$158,200	\$158,660
Expenditures				
Personnel	36,746	90,396	143,395	158,611
Operating	380	8,093	9,850	16,309
Total Expenditures	\$ 37,126	\$ 98,489	\$153,245	\$174,920
Cumulative Gain (Loss)	\$107,654	\$ 58,586	\$ 4,955	\$(16,260)

Department Report to Interim Finance Committee

	Quarter 1 09/30/09	Quarter 2 12/31/09	Quarter 3 03/31/10	
Revenues	\$144,780	\$157,075	\$158,200	
Expenditures				
Personnel	22,711	51,146	86,508	Quarter 4 report not available during audit
Operating	380	1,529	3,148	
Total Expenditures	\$ 23,091	\$ 52,675	\$ 89,656	
Cumulative Gain (Loss)	\$121,689	\$104,400	\$ 68,544	

Source: Auditor analysis of Department reports and state accounting records.

As shown in Exhibit 3, the Department reported reserves of \$68,544 in its report to the IFC for the third quarter ended March 31, 2010. However, when all costs are included, we estimate the reserves were only \$4,955, a difference of \$63,589. We identified two main reasons for this difference. First, the Department did not include personnel costs of the Nursery Program Manager in their expenditures. Second, administrative costs were not allocated to the Nursery Program consistent with the Department's administrative cost allocation plan.

Although this program was transferred to a non-General Fund supported budget account, the program is still subsidized by the General Fund because certain personnel costs are paid with General Fund dollars. The Nursery Program Manager is still funded by General Fund appropriations in budget account 4540; however, this position is primarily responsible for Nursery Program activities in budget account 4545.

The General Fund has subsidized the Nursery Program for many years. In our prior audit in 2006, the Department's goal was to fund the program with 50% user fees and 50% General Fund revenue. We estimate the General Fund subsidy, prior to the transfer, was approximately \$160,000 in fiscal year 2009.

Pest Control Operator Program

Our analysis of the Pest Control Operator Program indicates that fees are currently sufficient to sustain the program. We estimate the reserves were \$47,974 as of April 30, 2010. Based on current expenditure patterns, these reserves should be sufficient to cover program costs for the remainder of fiscal year 2010. Exhibit 4 shows estimated Pest Control Operator Program revenues and expenditures through April 30, 2010.

Exhibit 4

**Pest Control Operator Program
Fiscal Year 2010 Revenues and Expenditures
Cumulative Totals Through April 30, 2010**

Auditor Analysis

	Quarter 1 09/30/09	Quarter 2 12/31/09	Quarter 3 03/31/10	04/30/10
Revenues	\$ 32,146	\$186,270	\$274,683	\$291,528
Expenditures				
Personnel	61,119	132,669	196,428	216,664
Operating	1,020	14,648	19,434	26,890
Total Expenditures	\$ 62,139	\$147,317	\$215,862	\$243,554
Cumulative Gain (Loss)	\$(29,993)	\$ 38,953	\$ 58,821	\$ 47,974

Department Report to Interim Finance Committee

	Quarter 1 09/30/09	Quarter 2 12/31/09	Quarter 3 03/31/10	
Revenues	\$ 20,655	\$162,290	\$236,610	
Expenditures				
Personnel	41,751	89,396	131,729	Quarter 4 report not available during audit
Operating	1,020	6,585	11,165	
Total Expenditures	\$ 42,771	\$ 95,981	\$142,894	
Cumulative Gain (Loss)	\$(22,116)	\$ 66,309	\$ 93,716	

Source: Auditor analysis of Department reports and state accounting records.

As shown in Exhibit 4, the Department reported reserves of \$93,716 in its report to the IFC for the third quarter ended March 31, 2010. However, when all revenues and expenditures are included, we estimated the reserves were \$58,821, a difference of \$34,895. We identified three main reasons for this difference. First, the Department did not include personnel costs of the Pest Control Operator Program Manager in their expenditures. Second, administrative costs were not allocated to the program consistent with the Department's administrative cost allocation plan. Lastly, certain revenues belonging to the program were recorded in a different budget account.

The Pest Control Operator Program is primarily funded by license fees, but it also receives a subsidy from pesticide registration fees, another program in the same budget account. This occurs because the Pest Control Operator Program Manager is funded by pesticide registration fees. Therefore, personnel costs for the Program Manager are not aligned with the proper program.

Agricultural Grading and Certification Programs Subsidized by General Fund

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. In addition, our testing indicated that inspection fees are not sufficient to recover inspection costs. Exhibit 5 shows the amounts recorded in the state's accounting system for the Grade and Certification Budget Account for fiscal year 2009.

**Grade and Certification of Agricultural Products
Budget Account 4541
Fiscal Year 2009**

Beginning Reserve Balance		\$54,989
Revenues		
Seed Certification Charges	\$47,397	
Egg Grading Fees	22,117	
Shipping Point Inspection Fees	15,433	
Other Fees	13,413	
Total Revenues	\$98,360	
Expenditures		
Personnel Services	\$56,694	
Operating	18,525	
Total Expenditures	\$75,219	
Gain (Loss)		\$23,141
Ending Reserve Balance		\$78,130

Source: State accounting system.

As shown in Exhibit 5, the state's accounting records indicate that program revenues exceed expenditures in Budget Account 4541. Therefore, management and other decision-makers may not have developed any concerns with this account during the budget process. However, we found that management and fiscal officers should not rely on this information because it does not accurately reflect the costs of programs in this account.

Personnel Costs Not Always Recorded to Correct Budget Account

Our review of accounting records identified that personnel costs for 17 of 49 (35%) grading, organic, and seed inspections were not charged to the Grade and Certification Budget Account (4541). In these instances, employees funded with General Fund Appropriations in another budget account performed the inspections. However, inspection fees were deposited into Budget Account 4541. Because the personnel costs for General Fund positions were not recorded or transferred to the inspection programs, the costs of the inspections were subsidized by the General Fund.

Fees Do Not Always Recover Costs

Our testing identified that fees charged do not always recover the cost of the inspection. For example, one Reno based employee spent 2.5 hours performing three inspections in Yerington, about 160 miles round trip. The fee for the inspection was \$40.00 per hour; however, the estimated salary and fringe benefits for this inspector was \$46.70 per hour. Another employee in our sample performed inspections that were billed at \$30.00 per hour. The estimated hourly salary and fringe benefits of this employee was \$35.45 per hour. Furthermore, travel time, transportation costs, and per-diem was not charged by the Department. Both of these inspector positions were funded by the General Fund in another budget account.

Accounting System Not Used Effectively

The Department does not effectively use the state's accounting system to track program costs. The state's accounting and payroll systems have been designed to enable agencies to track detailed cost information; however, the Department has not consistently used these systems' capabilities. As a result, accurate information is not readily available for monitoring, reporting, and decision-making. The Department can improve its cost information by 1) aligning personnel costs with the proper budget account, 2) using unique job codes for each program, and 3) recording payroll expense to specific programs.

Personnel Cost Alignment

State budgetary laws require expenditures be made on the basis of amounts allotted by the Legislature. Therefore, employee positions should be assigned with their approved funding sources to the proper budget account in the state's accounting system. The Department needs to seek approval during the budgetary process to allocate positions between funding sources in multiple budget accounts. Revisions to these approved alignments can be made if approved by the Budget Director, Governor, or the Legislature's Interim Finance Committee. The level of approval required depends on the amount of the change.

Unique Job Codes

The state's accounting system is capable of capturing specific financial information for the Department's programs or projects when used effectively. In order to

have complete financial information, however, the Department needs to consistently use job codes when recording program revenues and expenditures. Consistent use of job codes will enable the Department to track program costs and year-end reserve balances.

Payroll Expense Recording

The Department has the capability of assigning payroll expense to specific job codes in the state's payroll system. However, payroll expenditures associated with permanent employees are currently not tracked to the program level using job codes. As a result, payroll expenditures of permanent employees must be manually included in the calculations when compiling a program's financial information.

Effective use of the state's accounting and payroll systems is important because the Department has 6 divisions, 20 budget accounts, and approximately 45 programs. In our prior audit issued in 2006, we recommended the Department utilize the state's accounting system to efficiently track the costs of operating significant programs. Although the Department established a process to better utilize the state's accounting system, we found this process was not consistently used.

Recommendations

1. Align positions, to the extent possible, with their proper program and revenue source.
2. Use available funding to perform required inspections and testing of fertilizer and antifreeze products in Nevada.
3. Track the cost of significant programs to ensure complete and accurate information is available for monitoring, reporting, and decision-making.
4. Utilize the state's accounting system to efficiently track the cost of significant programs.

Appendices

Appendix A

Audit Methodology

To gain an understanding of the Department of Agriculture, we interviewed staff and reviewed statutes and regulations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Department. Furthermore, we documented and assessed the Department's internal controls related to payroll time recording, personnel, revenues and management reporting.

To determine if personnel costs were properly aligned with the appropriate funding source, we identified permanent positions lost or vacant over 120 days during fiscal year 2009. We reviewed legislative committee minutes and bills from the 2009 Session and 2010 Special Session to determine which Departmental duties were changed or eliminated.

Through discussions with management and staff, and review of work performance standards and other personnel documentation we identified employees responsible for taking over the duties of the vacant and lost positions. We verified our discussions by reviewing available source documentation generated during the performance of these duties. By reviewing fund maps we compared the funding source of lost and vacant positions to the funding source of the positions taking over the duties. We reviewed payroll data in the state's payroll system and compared journal entries to determine if adjustments were made to properly align personnel costs.

To determine if the personnel costs for management and certain division administrators were aligned with the appropriate funding source, we reviewed work performance standards and other documentation describing the duties of the positions reviewed. We verified the accuracy of duties described in employee work performance standards and documentation with staff. We used agency position fund maps to identify the funding source of each position and analyzed the appropriateness relative to the duties performed.

To identify if funding sources were spent on required programs, we discussed the performance of duties for positions left vacant. We also confirmed with management the required duties that were not performed. We reviewed laws and responsibilities of other states to determine the impact to the public of not performing required duties.

To determine the accuracy of financial information reported to the Interim Finance Committee, we inquired of accounting and management personnel regarding the Department's methods for recording revenues and non-payroll expenditures in the state's accounting system for specific programs. Through discussions with staff and review of position fund maps, we identified personnel assigned to each of the specific programs reviewed. The costs for payroll and fringe benefits were obtained from the Human Resources Data Warehouse for each employee assigned to the programs and added to program expenditures if necessary. Detailed financial information was downloaded from the state's accounting and payroll systems to calculate quarterly program operating results. Auditor calculated quarterly program operating results were compared to the operating results reported by the Department to the Interim Finance Committee.

To determine if revenues were properly aligned with expenditures in the Agricultural Grading and Certification budget account (BA 4541), we randomly selected 49 inspection reports during the period July 1, 2008 through December 31, 2009. We used the sample inspection reports to identify who performed the inspection. We then used departmental fund maps to identify the funding source of the inspector's position. We reviewed timesheets and payroll data from the state's payroll system and compared journal entries to determine if adjustments were made to properly align personnel costs.

To determine if the Department utilized the state's accounting system effectively for tracking program costs, we discussed the Department's accounting practices with management and accounting personnel. We reviewed manuals for the state accounting system and compared the practices described in the manuals to the accounting practices of the Department.

Our audit work was conducted from October 2009 to May 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Director of the State Department of Agriculture. On July 29, 2010, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D which begins on page 28.

Contributors to this report included:

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Appendix B

List of Agricultural Programs by Division

Administration Division

- Agricultural Mediation Program
- Homeland Security
- Junior Agricultural Loan Program
- Junior Livestock Show Board
- Natural Resources
- Nevada High School Rodeo Association
- Rangeland Resource Commission
- Section 8 Review Program

Animal Industry Division

- Diagnosis and Control of Animal Diseases
- Diagnosis and Eradication of Quarantinable Diseases
- Dog Bite Prevention Program
- Management of Feral or Estray Horses in the Virginia Range

Livestock Identification Division

- Brand Inspections
- Brand Recording and Records
- Investigate Livestock Losses on Roads and Railways
- Livestock Identification Brands

Measurement Standards Division

- Analyze 3,500 Fuel Samples From Service Stations Annually
- Check the Quantity Labeling on Packages
- Develop Fuel Standards for Internal Combustion Engines
- Ensure Accuracy of Weight and Measure of Food, Other Products, and Commodities
- Inspect 29,000 Scales, Gas Pumps, and Meters Annually
- Investigate Consumer Complaints

Plant Industry Division

- Federal and State Egg Grading
- Federal and State Environmental Compliance
- Federal and State Quarantine
- Insect Identification and Survey
- Invasive Weed Strategy
- Livestock Feeding Label
- Nursery Inspection and Licensing
- Noxious Weeds
- Nursery Program
- Organic Certification
- Pest Control Operator Licensing
- Pesticide and Fertilizer Registration
- Pesticide, Fertilizer, and Petroleum Analytical Laboratories
- Pesticide Use Monitoring
- Plant Disease Identification and Survey
- Plant Nursery Inspections
- Produce Inspection
- Seed Certification
- Vertebrate Pest Management
- Weed Free Hay

Resource Protection Division

- Protect Nevada's Agricultural, Industrial, and Natural Resources
- Provide Assistance and Abatement of Damage Caused by Predatory Animals, Birds, and Rodents Throughout the State of Nevada
- Safeguard Public Health and Safety Through Cooperative Assistance in the Control and Prevention of Damages and Diseases Caused by Wildlife

Source: Department of Agriculture Website, March 2010.

Appendix C

List of Positions Not in Alignment With Funding Source

Title/ Budget Account/ Position Number	Alignment Issue	Estimated Annual Amount of Misalignment
Agriculturist 4 – (PCO Program Manager) Account: 4545 Position Number: 3	The manager for the Pest Control Operator (PCO) licensing program is funded 100% by fees from the Pesticide Registration Program instead of PCO licensing fees. As a result, personnel costs for the PCO program are understated, and personnel costs for the Pesticide Registration Program are overstated. Both programs are intended to be self-supporting.	\$ 93,620
Division Administrator – Measurement Standards Account: 4551 Position Number: 30	An Information Technology (IT) Professional 3 position was approved for the Administrative Division in 2009 to help resolve misalignment issues. This position was left vacant while the Measurement Standards Division Administrator performed IT duties for the entire Department. This position was eliminated in the 2010 Special Session to generate salary savings. The administrator estimated that about 50% of his time is spent performing IT related duties for the other divisions.	\$ 51,675
Weights & Measurers Inspector 4 Account: 4551 Position Number: 22	In February 2010, this position began providing general oversight of Plant Industry Division (PI) personnel in the Las Vegas office such as review and approval of timesheets. These duties will remain delegated to this position until there is funding to hire a Southern Regional Manager in PI. The Department Director estimates about 10% of this position's time is spent supervising personnel in the PI.	\$ 8,171
Agriculturist 4 - (Nursery Program Manager) Account: 4540 Position Number: 27	The Nursery Program Manager's position is funded 100% by General Fund dollars in Budget Account 4540. However, all other Nursery Program revenue and expenditures are recorded in Budget Account 4545, a non-General Fund supported account. As a result, the Nursery Program is subsidized by the General Fund. Our estimate of the amount of misalignment is based on the percentage (80%) of time spent on Nursery Program duties identified in the Nursery Program Manager's work performance standards.	\$ 77,739
Regional Manager – Plant Industry Account: 4540 Position Number: 7	The Plant Industry Regional Manager position is funded 100% by the General Fund but supervises mostly fee-funded programs. We estimated this position spends about 78% of the time supervising fee-funded positions. Our estimate was based on the percentage of full-time equivalent positions supervised in fee-funded programs. Because a portion of this position's General Fund salary is used as federal in-kind match, we excluded the amount of salary used as federal in-kind match from our estimate.	\$ 74,200
Division Administrator – Plant Industry Account: 4540 Position Number: 100	The Plant Industry Division Administrator position is funded 100% by the General Fund but supervises mostly fee-funded programs. We estimated this position spends about 78% of the time supervising fee-funded positions. Our estimate was based on the percentage of full-time equivalent positions supervised in fee-funded programs. Because a portion of this position's General Fund salary is used as federal in-kind match, we excluded the amount of salary used as federal in-kind match from our estimate.	\$ 70,903

Appendix C

List of Positions Not in Alignment With Funding Source (continued)

Title/ Budget Account/ Position Number	Alignment Issue	Estimated Annual Amount of Misalignment
Agriculturist 4 - (Seed and Organic Program Manager) Account: 4540 Position Number: 16	The Seed and Organic Program Manager's position is funded by General Fund dollars in Budget Account 4540. However, other Seed and Organic Program revenue and expenditures are recorded to Budget Account 4541, a non-General Fund supported account. As a result, the General Fund subsidizes this program. Our estimate of the amount of misalignment is based on percentages (80%) identifies in this position's work performance standards.	\$ 58,995
Division Administrator – Livestock Identification Account: 4540 Position Number: 14	The Livestock Identification Division (LID) Administrator position is funded partially by a General Fund Appropriation in the Plant Industry Division's budget account and partially by revenues generated by the LID. Since this position no longer has duties associated with the Plant Industry Division, the position should be funded entirely by revenues generated by the Livestock Identification Division. The estimated misalignment equals the amount of the position's personnel costs funded by the General Fund in 2009.	\$ 56,187
Various General Funded and Federal positions in the Animal Industry Division Account: 4550 Position Numbers: 901, 4, 5	A Microbiologist 3 position funded by lab revenues in the Livestock Identification Division's account was left vacant for several years. General Fund and federal fund positions in the Animal Industry Division performed the procedures that generated the lab revenues for the Livestock Identification Division. The estimated misalignment equals the total salary and fringe budgeted for the vacant position less funding from federal sources and salary of seasonal employees performing lab procedures and correctly charged against lab revenues. The fee-funded microbiologist position was eliminated during the 2010 Special Session.	\$ 55,541
Commissioned Deputy Brand Inspector Account: 4546 Position Number: 978	In July 2009, this position took over the duties of responding to public nuisance calls on horses in the Virginia Range. The dollar value of the misalignment is based on this position's hourly salary and fringe benefits times the estimated annual hours spent on program related duties.	\$ 4,751
Total		\$551,782

Amount related solely to industry fees (Positions 3, 30, 22).	\$153,466
Amount related to General Fund dollars (Positions 27, 7, 100, 16, 14, 4, 978).	\$398,316

Appendix D
Response From The Department of Agriculture

JIM GIBBONS
Governor

STATE OF NEVADA

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August 4, 2010

PAUL V. TOWNSEND, CPA
LEGISLATIVE AUDITOR
SEDWAY OFFICE BUILDING
333 E. FIFTH STREET
CARSON CITY, NV 89701

Dear Mr. Townsend

In response to your letter of July 20, 2010, as well as our meeting of July 29, 2010, I offer the following responses to the recent audit conducted by your staff of certain Divisions within the Department of Agriculture, and the subsequent preliminary audit report itself.

Many important issues were raised by the audit; however, most of the issues could be addressed by four recommendations made by your staff. They were as follows:

1. Align positions, to the extent possible, with their proper program and revenue source.
2. Use available funding to perform required inspections and testing of fertilizer and antifreeze products in Nevada.
3. Track the cost of significant programs to ensure complete and accurate information is available for monitoring, reporting, and decision-making.
4. Utilize the state's accounting system to efficiently track the cost of significant programs.

I will discuss some particularly significant areas within the above four recommendations, but I can assure you that I have absolutely no objection to any of the above four recommendations, and as I indicated in our meeting, your recommendations give me the tools that I have needed to put certain important processes in place to begin with.

Shortly after I accepted the position of Director in March of 2008, we initiated a "realignment" process to do exactly what recommendation one suggested. It has not been an easy process, and frankly we have made some mistakes. However, I believe within the year we will have accomplished most of the realignment that is possible considering the difficult financial situation and limited staffing we currently have. We have initiated a tracking system with employee time that will greatly enable this process. I have given direction to our fiscal office that revenues must be properly coded and correctly entered to the appropriate activity. These changes and upgrades will ensure that information used in monitoring, reporting and decision making is accurate. Additionally, I will be reviewing all financial reports that leave this Department for any reason with a much greater scrutiny than time has allowed in the past.

The following list of specific changes we have implemented, or will be implementing addresses specific recommendations contained within the audit report.

1. The Plant Industry Division recently hired a new chemist. He currently is reviewing the literature for procedures to correctly analyze submitted samples of fertilizers and antifreeze. Starting with the current fiscal year, the Department of Agriculture will analyze all products including fertilizer, antifreeze, or any other such product where funds are received for such analyses. NRS 588.270 requires the Director to publish a report annually with the results of such analyses. This has not been accomplished in the past as no data was available to support such a report. This will be accomplished starting with the current fiscal year.
2. The Pest Control Operator will be funded by both the PCO licensing program and the Pesticide Registration Program. A formula will be developed based on time commitments to make sure the program personnel costs truly reflect the efforts put forth.
3. The Department currently does not have a dedicated Information Technology position. Several individuals have put forth efforts to keep our electronic information systems operational including the Administrator of Measurement Standards. The recent move into our new building presented many IT problems; consequently considerable time of the Measurement Standards Administrator, as well as other individuals was required to resolve problems. Currently, our IT problems have become more minimal. This situation was discussed with the Administrator of Measurement Standards, and his time commitment to IT problems will be maintained at 10% or less.
4. Currently the Weights and Measurers Inspector 4 position in Las Vegas oversees the Weights and Measures staff at the Las Vegas Office. He also oversees the Petroleum Chemist and the Plant Industry staff to a limited extent, as Plant Industry no longer has a regional manager for Southern Nevada. The time commitment of the W & M Inspector 4 has been reviewed, and he feels comfortable in the time assessment that 10% or less of his time will be required to perform management duties for Petroleum Chemistry or Plant Industry. Presently, I see no alternative but to continue this procedure.
5. The funding of both the Division Administrator and the Regional manager for Plant Industry currently comes from General Funds; however a majority of the work supervised by both individuals is fee funded. A combination of time for both positions is currently being reviewed by both Administration and Fiscal to determine what amount of time by position might be more correctly charged against fees than General Fund. A final analyses has not been completed, but I am satisfied that at least the equivalent of one FTE, if not more, should be charged to fees from these two positions. The final status of this decision will be relayed to Audit once it is obtained.

6. Historically, the Livestock Identification Division Administrator position has been funded partially by a General Fund Appropriation in the Plant Industry Division. The recent elimination of much of the inspection duties makes the continued funding of the Administrator from this General Fund source inappropriate. Consequently, the funding of the Administrator, Livestock Identification, will henceforth be entirely from Livestock Identification fee funds.
7. A Deputy Brand Inspector (Position 978) is currently responsible for taking care of the problems associated with the Virginia Range horse population. There are no funds allocated for this activity, hence his time for this activity has been charged to Livestock Inspection, which could be considered a misalignment. The Department recently sold a number of stray horses, with the money going to the Estray Account. In the future, time spent in management of Virginia Range horse problems will be charged against the funds currently held in the Estray Account, which should be sufficient to cover this activity for at least the upcoming biennium, even without further deposits.
8. The Microbiologist 3 position funded in the past by lab revenues in the Livestock Identification Division account will no longer exist as such. The activity that funded the position has been transferred to the Veterinary Medical Services Division (Animal Industry). Currently the position is open and will likely remain vacant. The required laboratory time to perform the specific activity will be assumed by current Veterinary Medical staff.
9. The two areas of most concern to Administration include the Nursery Program and the combined programs of Seed Certification and Organic Certification. Both programs are essential to agriculture, are mandated by various NRS's and are fee funded to a certain extent. However, the revenue generated by fees is currently insufficient to cover all expenses, especially that of the program managers. Consequently, at this time the program managers are paid with General Funds, and the remainder of the programs operational expenses are covered by fees. The economic downturn that currently exists certainly questions the advisability of raising fees for these activities. For both seed certification and organic certification, viable alternatives exists, but at a significantly higher cost to the producer. It is my opinion that fees generated by seed certification could be increased, organic certification could be increased slightly, but collectively those increases would not cover the estimated cost of program management. Nursery fees are declining, and there seems little chance of changing that scenario at this point in time. Fiscal will continue to work with program managers to ensure correct coding of both revenues and expenses to the best of the Department's abilities.

After reviewing the several problem areas raised by the audit, it is my opinion that the majority of the misalignment problems noted have been or will be cured shortly. The underlying remaining problem centers, for the most part, with inadequate coding of both revenue and expenses to the correct activity. Steps have been implemented to address this area of concern. Better utilization of the state's accounting system will facilitate tracking of costs correctly. It is

P. Townsend, 8/4/2010
Page 4

also important to note that even though these problems have been noted, and corrective steps have been and or are being implemented, there is only so much progress that can be made with limited staffing. The success of the proposed recommendations in the audit, as well as the programs being implemented by the Department in response to the audit, will be dependent on the cooperation of all staff. Fiscal can do little more than respond directly to the information that is presented to them, they no longer have the luxury of time being available for checking input for correctness. As indicated in our discussions, the commitment from Administration is to do everything possible to make sure that the system works correctly to minimize not only mistakes, but to ensure that audit recommendations in fact do occur.

I have attached the "Department of Agriculture Response to Audit Recommendations" form. All four recommendations have been accepted, and as discussed, either have been put into effect or will be put into effect as staffing and funds allow. On behalf of the Department, I wish to congratulate both you and your staff for the time and energy put forth in this very important and productive endeavor.

Sincerely;



Anthony L. Lesperance

Cc: *Fiscal*
Personnel
Division Administrators

**Department of Agriculture
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Align positions, to the extent possible, with their proper program and revenue source	<u> X </u>	<u> </u>
2	Use available funding to perform required inspections and testing of fertilizer and antifreeze products in Nevada	<u> X </u>	<u> </u>
3	Track the cost of significant programs to ensure complete and accurate information is available for monitoring, reporting, and decision-making	<u> X </u>	<u> </u>
4	Utilize the state's accounting system to efficiently track the cost of significant programs	<u> X </u>	<u> </u>
	TOTALS	<u> 4 </u>	<u> 0 </u>