PERFORMANCE AUDIT

LIVESTOCK BOARD

STATE VETERINARIAN

Report to the Arizona Legislature
By the Auditor General
March 1985
85-4

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

March 7, 1985

Members of the Arizona Legislature
The Honorable Bruce Babbitt, Governor
Mr. Earl Kelly, Executive Director
Arizona Livestock Board

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Livestock Board and a limited review of the State Veterinarian. This report is in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. The performance audit was conducted as a part of the Sunset Review set forth in A.R.S. §§41-2351 through 41-2379.

This performance audit report is submitted to the Arizona State Legislature for use in determining whether to continue the Livestock Board and State Veterinarian beyond their scheduled termination date of July 1, 1986. The report addresses two areas in which the State can save a total of almost $1 million annually by 1) eliminating unnecessary inspection activities, and 2) transferring meat and poultry inspection responsibility to the United States Department of Agriculture. The report also addresses a need to strengthen the Livestock Board's enforcement of the laws under its jurisdiction.

My staff and I will be pleased to discuss or clarify items in the report.

Respectfully submitted,

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SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Livestock Board in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. This performance audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2351 through 41-2379.

The Arizona Livestock Board is responsible for protecting the general public from unwholesome meat and poultry products, protecting the industry from theft, and exercising general supervision over the livestock interests of the State. The Board is mandated by law to keep records of livestock inspections, recommend legislation in the area of livestock and assist in the prosecution of those who violate livestock laws.

The Livestock Board Could Save $620,000 Annually By Eliminating Unnecessary Inspection Activities (see page 13)

The Livestock Board could save $620,000 annually by eliminating activities that do not significantly contribute to its primary goals of theft and disease control. Although brand records and verification inspections are necessary to prevent theft and aid animal disease control efforts, other Livestock Board activities, including some point of origin inspections and feed lien activities are unnecessary. Point of origin inspections for pasture to pasture movements are not needed since no change of ownership occurs. Other point of origin inspections are also unnecessary because inspectors later inspect the livestock at their destination points. Inspector involvement in feed lien cases is not needed because these cases are private matters. Other miscellaneous activities such as criminal investigations and investigations of illegal butcherings unnecessarily duplicate local law enforcement activities.

The Livestock Board can achieve its goal of preventing theft and disease by concentrating inspections at major collection points, changes of ownership between ranches and out-of-State movement. This would be similar to procedures used in other cattle producing states such as

Montana and California, and would allow the Board to eliminate unnecessary inspections and activities. As a result, the Board could reduce its staff by 25 full time equivalent positions and save approximately $620,000 annually. The Legislature should consider amending Title 24 of Arizona Revised Statutes to delete requirements for unnecessary inspections. In addition, the Board should recover all of its inspection costs through increased fees. Inspection activity primarily benefits the livestock industry, but the Board recovers only about 25 percent of its costs. The Board should review costs for its services and recommend a fee structure to the Legislature that will pay full cost for the services provided.

State Could Save $345,000 Annually By Using Federal Meat And Poultry Inspection (see page 29)

Arizona could save $345,000 annually by requesting that the United States Department of Agriculture (USDA) assume the State meat inspection program. Under Federal law the USDA must assume meat and poultry inspection duties if a state discontinues its meat inspection program. USDA inspection would provide better trained supervisors and would enable all meat and poultry plants now under State inspection to market their products to Federal installations and out-of-State plants and businesses. Although changing to Federal inspection may impose additional costs on Arizona meat and poultry plants, experience in other states suggests that most plants make the transition successfully. Arizona should request that the U.S. Secretary of Agriculture designate Arizona for Federal meat and poultry inspection.

Livestock Board Needs To Strengthen Enforcement Efforts (see page 37)

The Arizona Livestock Board has not fully exercised its existing authority to ensure compliance with laws under its jurisdiction. The Board's administrative personnel have not taken action against several meat plants with repeated sanitary problems. Although the Board has the authority to levy fines and suspend or revoke licenses it relies on the courts for enforcement - a policy that often results in less stringent action than the Board could take. Enforcement of brand inspection laws has been inconsistent. Although some individuals have been penalized for improper

use of self-inspection forms, the Board has taken no action against several others who also allegedly misused the forms. Further, lack of enforcement in cases involving Board members may create the appearance of a conflict of interest. The Board should use its own authority to consistently penalize individuals who violate statutes, rules and regulations before referring cases to the courts. The Board should also use its authority to hire and retain hearing officers to hear evidence and make recommendations in all cases involving legal violations.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Livestock Board in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. This performance audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2351 through 41-2379.

The Livestock Board was originally established as the Territorial Livestock Sanitary Commission in 1887. Since then the Legislature has expanded the Board's duties, and the Board is currently responsible for protecting the general public from unwholesome meat and poultry products, protecting the industry from theft, and exercising general supervision over the livestock interests of the State. The Board is also mandated by law to keep records of livestock inspections, recommend livestock legislation and assist in the prosecution of those who violate livestock laws.

Arizona Livestock Industry

Cattle constitute a major portion of Arizona's livestock industry. The value of all beef produced in Arizona totaled $304 million in 1982. Arizona's cattle population was approximately one million in 1982, and the state ranked 35th in the nation in cattle population. Range cattle constituted 51 percent of the total cattle in the State in 1982. Since 1979 the horse population in Arizona has risen 6 percent a year, and was estimated to be 290,600 in 1982.

Between 1980 and 1983 livestock officers inspected between 1.1 and 1.5 million animals annually. These inspections took place at auctions, feedlots and in the field. Since mid-1981 when the Board instituted a self-inspection form for ranchers to use, the number of animals checked during field inspections has decreased by more than 400,000 head. Board staff also conduct daily inspections of 69 meat establishments in the

State that process and sell wholesale meats. Inspectors also visit an additional 38 custom exempt plants that slaughter and process meat.

Organization And Personnel

The Board consists of nine members, eight of whom are members of specific industries. Statutes require that the Board membership consist of one cattle feeder, two cattle growers, one horse owner engaged in equestrian activities, one meat packing industry representative, one dairy industry representative, one sheep and goat industry representative, one swine producer, and one member of the general public. The Livestock Board appoints a director to oversee daily operation of the Board's four major divisions. These divisions are: Brand Inspection, Meat And Poultry Inspection, Animal Disease Control, and Administrative Services. The State Veterinarian also works under the guidance of the Arizona Livestock Board, and oversees the Meat And Poultry and Animal Disease Control functions. (For further detail on the State Verterinarian see the Introduction and Sunset Factors for the State Veterinarian, pages 57 through 63). The Board has a staff of 115.2 authorized full-time equivalent (FTE) positions: 17.5 in Administrative Services, five in Animal Disease Control, 67 in Livestock Inspection, 24.7 in Meat And Poultry Inspection, and one director.

Revenues And Expenditures

The Livestock Board is funded primarily through the General Fund, with Federal reimbursements for meat and poultry inspection activities. All revenues except those of four special funds go to the General Fund. The four special funds are as follows.

- Seizure Fund - All proceeds from the sale of unclaimed livestock seized by the Board are deposited into this fund to offset the costs of hauling, feeding and boarding animals. If an owner claims an animal after a sale, the Board pays the owner the amount received minus handling and feeding costs. Balances in excess of $3,000 revert to the General Fund at the end of each fiscal year.

- Stray Fund - This fund is similar to the Seizure Fund, but is used to pay the costs of feeding and handling stray livestock held by the Board. Balances in excess of $5,000 revert to the General Fund at the end of each fiscal year.

- Horse Maintenance Fund - The Board receives proceeds from selling horses, and public donations to care for and feed horses seized by the Board because of willful neglect or cruel treatment. A.R.S. §24-552.B directs that these donations be deposited in the Horse Maintenance Fund. These monies do not revert to the General Fund.

- Beef Council Fund - A.R.S. §24-166.A directs the Board to collect a 25 cent fee on all cattle over 6 months old that are inspected when a change of ownership occurs. These funds, minus 5 percent retained by the Board for administrative expenses, are turned over to the Arizona Beef Council for use in promoting beef and beef products.

Table 1 summarizes Board appropriations and expenditures from fiscal year 1981-82 through fiscal year 1984-85. Table 2 shows revenues collected by the Board during the same period.

TABLE 1

LIVESTOCK BOARD APPROPRIATIONS AND EXPENDITURES
FOR FISCAL YEARS 1981-82 THROUGH 1984-85

Appropriations	1981-82	1982-83	1983-84	1984-85
FTE Positions	144.2	126.2	122.2	115.2
General Funds				
Operating	$3,893,100	$3,440,700 (1)	$3,261,500 (1)	$3,355,000 (1)
Predator Control	39,200			
Tuberculosis and Brucellosis Control	20,000			
Reactor Indemnities	4,000			
Total	$3,956,300	$3,440,700	$3,261,500	$3,355,000
Expenditures				
Personal Services	$2,461,600	$2,184,500	$2,098,545	$2,310,300
Employee-Related Expenses	575,300	522,200	519,384	562,400
Professional And Outside Services	6,300	17,100	52,406	59,200
Travel				
State	319,600	83,800	87,799	100,200
Out Of State	5,500	4,200	4,675	6,100
Other Operating Expenses	144,000	214,300	277,697	231,800
Equipment	64,400	66,100	124,539	85,000
Total Expenditures	$3,576,700	$3,092,200	$3,164,995	$3,335,000

(1) Lump sum appropriation

Source: Livestock Board budget requests and appropriations reports from 1981-82 through 1984-85

TABLE 2

LIVESTOCK BOARD REVENUES FOR
FISCAL YEARS 1981-82 THROUGH 1984-85

Revenues	Actual 1981-82	Actual 1982-83	Actual 1983-84	Estimated 1984-85
General Funds				
Livestock Inspection Fees	$217,428	$338,377	$401,062	$ 420,000
Equine Transfer Requests	26,628	51,692	63,468	65,000
Brand Recording And Rerecording	98,809	82,790	89,227	85,000
Overtime Payments	31,046	4,031	2,498	2,500
Permit Fees				
Feedlots/Garbage Feeders	5,030	4,785	4,635	4,550
Meat Outlets/Slaughter Houses	5,130	6,005	5,855	6,000
Horse Traders	2,050	1,540	1,820	1,200
Miscellaneous	3,454	713	3,073	2,000
Special Funds				
Seizure Fund	1,791	1,016	3,378	1,800
Stray Fund	41,386	28,593	44,302	22,000
Beef Council Fund	10,853	10,731	12,585	14,000
Horse Maintenance Fund	130	461	00	100
Federal Funds				
Reimbursements for Meat and Poultry Inspection	509,524	418,687	345,916	380,000
Total Revenues	$953,259	$949,421	$977,819	$1,004,155

Source: Livestock Board budget requests from 1981-82 through 1984-1985

Audit Scope And Purpose

The purpose of this audit is to evaluate the need for and effectiveness of the Arizona Livestock Board. The audit report presents findings in three areas. These three areas are:

- the need for brand inspection,
- the need to maintain a State meat and poultry inspection program, and
- Board enforcement activities.

In addition, we developed information about the Livestock Board's special investigations unit. This information is presented in the section Other Pertinent Information.

Due to time constraints, we were unable to address all potential issues identified during our audit work. The section Areas For Further Audit Work describes these potential issues.

The Auditor General and staff express appreciation to the Livestock Board members and staff for their cooperation and assistance during our audit.

SUNSET FACTORS

In accordance with Arizona Revised Statutes §41-2354, the Legislature should consider the following 12 factors in determining whether the Arizona Livestock Board should be continued or terminated.

1. Objective and purpose in establishing the Board

The Livestock Board's objectives encompass regulating and protecting the livestock industry. A.R.S. §24-104 establishes the Board's basic functions. These functions include:

- exercising general supervision over the livestock interests of the State,
- protecting the livestock industry from theft,
- protecting the livestock and poultry industries from contagious and infectious disease, and
- protecting the public from diseased and unwholesome meat and meat products.

2. Effectiveness with which the Board has met its objective and purpose and the efficiency with which the Board has operated

The Board has been generally effective in meeting its objective and purpose. However, the Board could increase effectiveness by using its own authority to enforce its regulations governing meat and poultry products, and by more consistently enforcing requirements for use of self-inspection forms when ranchers move cattle without inspection by a livestock officer (see Finding III, page 37).

The Board could improve efficiency by eliminating livestock officer duties such as inspecting at point of origin if livestock are shipped to destinations where they may be reinspected, serving court orders in feed lien disputes and other activities that have little effect in deterring theft. These changes would eliminate the need for 25 full-time equivalent positions and save the State approximately

$620,000 annually (see Finding I, page 13). The Board could also save $345,000 annually by transferring responsibility for meat and poultry inspection to the U.S. Department of Agriculture (USDA), (see Finding II, page 29).

3. The extent to which the Board has operated within the public interest

The Board has not operated in the public interest to the extent that it has not consistently enforced the laws under its jurisdiction. The lack of consistent enforcement may create an appearance of partiality in enforcement actions against Board members (see Finding III, page 37).

4. The extent to which rules and regulations promulgated by the Board are consistent with legislative mandate

Livestock Board rules and regulations appear to be consistent with the Board's legislative mandate. The current rules and regulations were reviewed and approved by the Attorney General in 1982.

5. The extent to which the Board has encouraged input from the public before promulgating its rules and regulations and the extent to which it has informed the public as to its actions and their expected impact on the public

Generally, the Board accepts and encourages input from the public and informs the livestock industry of the impact of its actions. The last rule revision for the Livestock Board occurred in 1982. At that time the Board informed the public of the rule changes through public notices. The Board normally conducts all offical meetings in accordance with the open meeting law. However, according to a Department of Public Safety investigation the Board violated the open meeting law in 1984 when five Board members and the director met at a restaurant near the Board's Phoenix office to discuss business. In addition, the agency suspended three meat operators' licenses without holding a public hearing as required by law.

6. The extent to which the Board has been able to investigate and resolve complaints which are within its jurisdiction

The Board attempts to investigate and resolve all complaints involving livestock and meat and poultry inspection.

The Brand Inspection Division receives a variety of complaints about livestock. Most complaints are made by telephone and a livestock officer is assigned to investigate. Upon completing an investigation the officer makes out a daily report describing the incident. A random sample of the 1,890 daily reports filed during 1983 shows that more than 40 percent involved stray animals, 19 percent involved animals killed on highways or by railroads, 14 percent dealt with missing animals, and 4 percent involved illegal butcherings and other theft.

The Meat and Poultry Inspection Division receives fewer complaints than the Brand Inspection Division. Most complaints involve restaurants and other establishments not under the Division's jurisdiction. Since 1980 the Division has received four complaints concerning entities under its jurisdiction. Division staff investigated all four complaints and found no cause for further action. The Division has also investigated approximately 20 other consumer complaints by submitting samples for laboratory analysis to detect prohibited additives. Only one sample was positive. Because the plant involved had changed to Federal inspection the Division referred the case to Federal authorities for further action.

7. The extent to which the Attorney General or other applicable agency of State government has the authority to prosecute actions under enabling legislation

The Attorney General has full authority to enforce the Livestock Board's enabling statutes. A.R.S. §24-646 directs the Attorney General or a county attorney to represent the Board in all legal

actions. In addition, A.R.S. §§24-104, 24-645 and 24-646 authorize the Board to seek injunctive relief against statute violators.

8. The extent to which the Board has addressed deficiencies in the enabling legislation which prevent it from fulfilling its statutory mandate

In 1982 the Livestock Board sought legislation to reclassify the act of adulterating meat as a felony and to eliminate the need for an official public hearing for adulterated meat violations (SB 1050). The Board was attempting to strengthen its ability to ensure wholesomeness of meat products and to take timely action in such cases. The 1982 Legislature did not enact either provision.

9. The extent to which changes are necessary in the laws of the Board to adequately comply with factors listed in the Sunset Law

Based on our audit work we recommend that the Legislature consider the following changes to the Livestock Board's statutes.

- Amend A.R.S.§24-262 and A.R.S. §§24-267.A, 24-267.B and 24-267.E to eliminate unnecessary livestock inspections including point of origin inspections when livestock are moved to a destination where inspections are also performed and when no change of ownership takes place (see Finding I, page 13).

- Amend A.R.S. §24-108.A to eliminate the requirement that the Livestock Board appoint an inspector in a locality upon petition by at least five cattlemen.

- Amend A.R.S. §§24-601 through 24-663 to delete provisions for state meat and poultry inspection and licensing if this responsiblity is transferred to the USDA (see Finding II, page 29).

10. Extent to which termination of the Board would significantly harm the public health, safety or welfare

Terminating the Livestock Board would not directly harm the public health, safety or welfare. Most Board activities do not affect the general public and those that do, such as meat and poultry inspection and animal disease control, could be assumed by the Federal government or the State Veterinarian. However, terminating the Board would eliminate important services to the livestock industry in Arizona, such as brand recording, inspection and other ownership records that discourage theft and allow tracing of animals. Although at least one western state relies on a voluntary brand recording and inspection system, a statewide system enforced by a state agency provides the greatest assurance of compliance and reliability.

11. The extent to which the level of regulation exercised by the Board is appropriate and whether less or more stringent levels of regulation would be appropriate

The Board could reduce some unnecessary regulation without harming either the public or the industry. Unnecessary activities include most point of origin inspections and feed lien activities, both of which have a marginal effect on livestock theft. Continued inspection at points of destination and point of origin inspection for out-of-State shipments and ranch-to-ranch sales will allow the Board to adequately protect livestock owners from theft. In addition, the Board could eliminate its meat and poultry inspection program without endangering the public by transferring this responsibility to the USDA.

12. The extent to which the Board has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished

The Board hires veterinarians in outlying areas on a contract basis to assist in handling the final disposition of carcasses suspected of being unwholesome for human consumption.

FINDING I

THE LIVESTOCK BOARD COULD SAVE THE STATE $620,000 ANNUALLY BY ELIMINATING UNNECESSARY INSPECTION ACTIVITIES

The Arizonza State Livestock Board could save $620,000 annually by eliminating unnecessary inspection activities. Although brand records and verification inspections are necessary to prevent theft and aid animal disease control efforts, some other Livestock Board activities contribute little toward achieving these goals. Eliminating unnecessary inspections and activities would reduce the Board's staff by 25 full-time equivalent (FTE) positions and save approximately $620,000 annually. Because Livestock Board ownership records and verification programs benefit the industry rather than the public, user fees should support these activities.

The Livestock Board regulates the movement and disposition of livestock within Arizona. The Board is charged with protecting the livestock industry from theft, keeping animals disease free, and inspecting meat and poultry products. Livestock inspection accounts for the largest share of Board activity. Brand Inspection Division staff maintain brand and ownership records and inspect livestock to verify ownership of animals. Inspectors also investigate thefts, assist in identifying stray animals and animals killed on highways, and perform other livestock related tasks. The Division is authorized 66 inspectors Statewide to perform these duties.

Some Inspector Activity Is Unnecessary

Some inspector activity in Arizona is unnecessary. The purpose of the brand inspection program is to prevent theft and to control infectious disease by maintaining accurate records of livestock ownership and movement. However, some inspection activities are unnecessary and do not contribute to achieving this purpose. The Board should eliminate unnecessary activities. It could still provide effective theft protection

by concentrating its inspections on destination points as is done in at least two other states.

Current Activity - The activities of the Brand Inspection Division staff center on recording brands and inspecting range cattle.* Per the Board's 1983-84 Budget Appropriation Report, the primary goal of these activities is to prevent theft by providing a reliable record for tracing ownership and to prevent the spread of disease. Ownership records and verification inspections limit opportunities for cattle theft and also allow investigators to locate diseased cattle and track their movement.

Livestock officers perform duties required by Title 24 of the Arizona Revised Statutes. Title 24 requires branding of all range cattle and recording of brands with the Livestock Board.** Current law provides for point of origin and some destination inspections. These require inspection of cattle prior to moving them, whether they are changing ownership or being moved from pasture to pasture, out of State, to slaughter or to sale yards. In some cases the statutes allow for self inspection by owners rather than livestock inspectors. Arizona is one of many states with a brand recording and inspection system. An Auditor General survey of 15 states found that all 15 require some form of brand inspection, although Texas has a voluntary system carried out by a private association at the county level. Table 3 shows inspection activity for fiscal year 1983-84.

* The Division inspects goats, sheep and horses in addition to cattle. However, this activity is considerably less than cattle inspection in terms of numbers and volume. Most inspection activity involves cattle.

** In addition, A.R.S. §24-108.A requires the Livestock Board to appoint a livestock inspector in a locality upon petition to the Board by not less than five cattlemen.

TABLE 3

LIVESTOCK BOARD CATTLE INSPECTION ACTIVITY
FOR FISCAL YEAR 1983-84

Activity	Number	Number of Cattle
Range Inspections	25,753	540,272
Auction Inspections	NA	189,662
Feedlot Inspections	NA	568,769
Dairy Inspections	NA	36,096
Other Activities	1,890	NA

NA: Information was not available.

Source: Livestock Board budget request and a Board official

Inspectors also perform other livestock related activities. These include investigating thefts, highway kills, illegal butcherings, strays, cruelty to animals, missing, injured or dead livestock, and dog bites; and participating in feed lien cases. Table 4 shows the type and amount of livestock and related activities performed by livestock inspectors during fiscal year 1983-84.

TABLE 4

OTHER PROJECTED LIVESTOCK BOARD INSPECTOR ACTIVITIES(1)
FISCAL YEAR 1983-84

	Number	Percentage of Total
Strays	794	42%
Highway Kills	359	19
Missing Livestock	265	14
Injured Or Dead Stock	113	6
Feed Liens	113	6
Miscellaneous	246	13
Total	1,890	100%

(1) The activity frequencies are based on a random sample of 200 actual cases selected from fiscal year 1983-84 inspector daily reports.

Source: Livestock Board activity records for fiscal year 1983-84

Some Activities Are Unnecessary - Some Livestock Board inspection activities are unnecessary. Unnecessary activities do not significantly contribute to the Board's goals of tracing movement of livestock and verifying ownership, because they duplicate other Board staff activities or activities of other State agencies. Unnecessary activities typically involve small numbers of livestock at scattered points throughout the State. Additionally, many of the unnecessary activities are duplicated by other State agencies. Unnecessary activities include some point of origin inspections and involvement in feed lien cases.

- Point of Origin Inspections - A.R.S. §24-267 requires point of origin inspections before owners can move or sell livestock. Some point of origin inspections are not necessary. These include:

  Backyard Inspections - According to the Livestock Board, backyard inspections involve a livestock inspector inspecting a small number of livestock before sale or slaughter. This activity accounted for a bulk of inspector work load in 1983. In these cases the inspector only inspected one or two head of cattle each visit. Backyard inspections involving livestock destined for auction are unnecessary. The Board assigns inspectors to all auction houses to process livestock ownership changes.

  Pasture To Pasture Movements - Pasture to pasture movements are point of origin inspections that take place when a rancher moves livestock from one area to another.* No change of ownership occurs and the inspector usually waives the inspection fee.

  Some point of origin inspections are necessary. Those involving ranch to ranch sales or livestock shipped out of State are not duplicated and should be continued to ensure protection against theft.

* A.R.S. §§24-267.E and 24-268.D allow inspection and fee waiver of pasture to pasture movements at the inspectors' discretion.

- Feed Liens - A.R.S. §33-921 outlines necessary requirements for an individual to hold lien for feed and pasturage. Livestock officers participate in these cases by ensuring that the parties involved meet all legal requirements, although statutes do not require livestock officer involvement. These activities involve private matters between two individual parties.

Inspection Program Change - Two factors indicate that the Livestock Board could eliminate many current activities without reducing protection to the livestock industry. First, the inspections that would be retained would be focused on points at which major thefts might occur.* Second, livestock theft does not appear to be as significant a problem as the Board has suggested.

The Board should focus staff resources at points where major thefts might occur. Concentrating inspections at sale yards, feedlots, slaughterhouses and on shipments going out of State would reduce the potential gain from livestock theft by eliminating the most likely avenues for the sale of stolen animals. Presently, California and Montana regulate livestock in this manner. California requires inspections at sale yards, at feedlots, prior to slaughter, and for livestock going out of state. Montana requires inspections at sale yards (1 head or more), prior to slaughter, and for change of ownership at ranches, county lines and feedlots.

Livestock theft does not appear to be a significant problem in Arizona. Although a number of Livestock Board and industry sources identified theft as a major problem, little evidence supports this claim. None of the 15 sheriff's departments in Arizona identified theft as a major problem, and only two identified significant cases of theft. A survey of Livestock Board daily reports for fiscal year 1983-84 revealed two recorded cases of livestock theft out of a sample of 200 reports. Interviews with industry representatives and financial institutions found no significant documented amounts of theft. In fact, members of the financial community report losses from theft to be no higher than those expected through natural

* These inspections include all ownership changes, livestock going to slaughter and livestock being moved out-of-State.

attrition. The limited incidence of documented theft is especially significant in light of the Board's restricted enforcement policy. Board statutes restrict inspections to daylight hours only, thus allowing prospective thieves the freedom to operate at night. Also, until very recently the Board's selective road stop program, which allows inspectors to stop vehicles and request all necessary proof of ownership documents, was not strictly enforced. Finally, criminal investigations accounted for less than 1 percent of inspector activity in fiscal year 1983-84.*

Eliminating Unnecessary Activities Would Reduce Staffing Requirements

Changing the livestock inspection program to eliminate unnecessary activities would reduce Board staff requirements. Our analysis shows that changes in inspection requirements would eliminate the need for 25 FTE positions. Combined with reduced cost for vehicle operations, a reduction in inspection staff would save the State $620,000 annually. Further, even with these reductions the inspector work load in Arizona would remain low compared with other states with comparable numbers of range cattle. Future trends in the livestock industry may produce additional savings by further reducing the need for livestock inspections.

Staffing Reduction - The Livestock Board could eliminate 25 FTE positions by reducing unnecessary inspections and performing point of destination inspections. Unnecessary activities account for 35 percent of inspector staff time. Inspections at destination points, ranch to ranch sales and slaughterhouses, and on shipments out of State would provide adequate records of livestock ownership and movement and save the Board approximately $547,500 in personnel costs. The staffing reduction would produce an additional savings of almost $74,000 in vehicle operation costs.

Some duties performed by livestock inspectors are necessary, others are not. The necessary functions include inspecting cattle at all points of destination (including auctions), inspecting cattle sold between ranches and those going to slaughter, and inspecting cattle prior to shipments out

* One percent is a projection based on an Auditor General random sample survey of 200 daily report cases for fiscal year 1983-84.

of State. Also, inspectors should continue to investigate reports of stray livestock and highway kills. All other activities are unnecessary. These include most point of origin inspections, illegal butcherings, dog bites and missing, injured or dead livestock, and feed lien activity. Table 5 shows the staff hours required to perform both the necessary and unnecessary activities in fiscal year 1983-84. Eliminating unnecessary activities would have reduced the total inspector work hours required in that year from 117,216 to 66,946.

TABLE 5

HOURS REQUIRED TO PERFORM
LIVESTOCK BOARD INSPECTOR ACTIVITY
FISCAL YEAR 1983-84

	Essential Staff Hours	Unnecessary Staff Hours
Auction	9,504	
Ownership Change Inspections	21,115	
Custom Slaughter	8,839	
All Other Inspections		19,150
Daily Report Activities	27,488 (1)	21,744
Total Hours	66,946	40,894

(1) Includes 20,677 hours for investigating stray livestock reports, 2,872 hours to investigate highway kills and allowance of 8 percent (3,939 hours) for miscellaneous activities such as theft investigation, cruelty to animal complaints and railroad kills.

Source: Complied by Auditor General staff from Board records and reports

The essential activities identified in Table 4 are those that significantly promote the goals of the brand inspection program. The reduction in inspector activities still provides for a meaningful deterrent against theft, because the points offering the greatest potential economic gain from theft would still be regulated. Eliminating unnecessary activities would allow the Livestock Board to reduce its inspector staff by 25 FTE positions. Table 6 shows the practicable staffing reductions and projected savings. However, implementing these reductions may necessitate eliminating A.R.S. §24-108.A that requires the

Board to appoint a livestock officer at the request of five cattlemen. The Board may also be able to reduce the cost of inspection activity. Fewer inspections and daily reports could eliminate the need for some clerical personnel.

TABLE 6

PROJECTED STAFFING AND COST SAVINGS
POSITIONS NEEDED FOR ESSENTIAL ACTIVITIES

Positions	
Total Hours Needed	66,946
Divided By	÷
Hours Per FTE Position	1,776 (1)
FTE Positions	37.7
Multiplied By	x
Training Allowance	1.08
FTE Positions Needed	40.7 or 41
Savings	
Current FTE Positions	66 (2)
Less Needed Positions	-41
FTE Savings	25
Multiplied By Cost	x
Per Position	$ 21,900
Personnel Cost Savings	$547,500
Plus Vehicle Operating Savings	+ 74,000
Total Savings	$622,500

Source: Auditor General staff analysis of Livestock Board data

(1) The 1,776 standard annual productive hours figure is derived by subtracting vacation, sick leave and other nonproductive activity hours from the total annual hours figure of 2,080.

(2) The Livestock Board is authorized 66 FTE inspector positions for 1984-85. Only 59 positions were filled as of November 28, 1984. However, the Board has requested the 66 positions for 1985-86. Thus, the projected staffing savings is based on the total number of authorized positions.

The projected $620,000 represents a minimum savings. Personnel costs are based on the starting salary of a Livestock Officer I ($17,310 per year) plus employee related expenses and uniform allowance ($4,600). Thus, the Board would save at least $21,910 per inspector. Vehicle operations savings are based on the average number of miles driven by inspectors in 1983-84 mutliplied by 15 cents (the average cost per mile that year). The analysis is based on the assumption that work load and vehicle operation costs remain constant.

Inspector Work Load Remains Low - Even with the proposed staffing reductions, the work load for Arizona livestock inspectors would be much lower than work loads in other states, which indicates that resources would be more than adequate to fulfill Livestock Board duties.* Table 7 shows staffing and work loads in states with point of destination inspections. The Auditor General proposal for inspection is similar to the programs in California and Montana, but still leaves Livestock Board inspectors with only 16 percent of California's inspector work load and 27 percent of Montana's work load.

TABLE 7

STAFFING AND WORK LOAD IN STATES WITH POINT OF DESTINATION INSPECTIONS (Program Proposed For Arizona)

	Range Cattle	Inspectors Full Time	Inspectors Part Time(1)	Cattle Per FTE Inspector
Arizona	476,000	41	0	11,610
California	3,449,000	25	46	71,854
Montana	3,043,000	68 (2)	6	42,859

(1) Part time inspectors in these other states work half time. Many are seasonal employees
(2) Includes 18 investigators

Source: Auditor General State survey and United States Department of Agriculture

* Auditor General staff surveyed 15 states. Table 7 and Table 8 list neighboring states with brand inspection requirements and significant cattle populations.

The disparities in the proposed program are similar to the differences between Arizona's current staffing program and other western states with comparable point of origin inspections. For example, as shown in Table 8, Arizona's current inspector work load is 50 percent of New Mexico's work load and 20 percent of Colorado's work load.

TABLE 8

STAFFING AND WORK LOAD IN
STATES WITH POINT OF ORIGIN INSPECTIONS
(Current Arizona Program)

	Range Cattle	Inspectors Full Time	Inspectors Part-Time(1)	Cattle Per FTE Inspector
Arizona	476,000	59	0	8,068
Colorado	2,063,000	53	14	34,383
Nevada	1,000,000	4	70	25,641
New Mexico	1,183,000	49	50	15,986
Utah	729,000	10	47	21,441

(1) Part-time inspectors in these other states work half time. Many are seasonal employees

Source: Auditor General State survey and United States Department of Agriculture

Additional Savings - The Board may realize additional savings by improving inspector productivity and reducing inspection costs. Additionally, industry trends point to a decline in the need for field inspections.

The differences in work load measures between Arizona and other western states suggest that the Livestock Board may produce additional savings by improving inspector productivity.* For example, livestock inspectors could each be responsible for 11,600 cattle under the point of destination

* The seasonal nature of much of the inspection activity, and the extensive use of part-time inspectors by other states, suggests that one means of increasing productivity may be the use of part-time or seasonal employees.

inspection program proposed by the Auditor General. Increasing inspector work load to one-third the Montana level (14,286 cattle per inspector) would reduce the number of inspectors needed from 41 to 33, a savings of approximately $175,280. Further audit work is needed to determine why work loads for Arizona livestock inspectors are lower than other western states and what changes, if any, can be made to further reduce the number of inspectors in Arizona.* Reducing the number of inspectors to 41 and eliminating unnecessary field inspections could decrease the number of motor vehicles needed by the Livestock Board. The staffing reductions noted above eliminate the use of 18 Board owned vehicles. Substituting these excess vehicles for 18 of the 20 vehicles the Board rents from the Department of Administration Motor Pool could save an additional $38,160 annually. Concentrating inspections at major destination points may also reduce mileage and therefore, may reduce vehicle operation costs.

Further savings may also be possible because of trends in the livestock industry. Nationwide, consumers are eating less beef. Lower demand for beef, lower prices and high production costs are causing the number of ranches to decline, and many remaining ranches are corporate controlled. The total number of cattle in the State has steadily declined from a peak of 1.4 million head in 1973 to 1 million head in 1984. The continuing decline of range cattle indicates less need for field inspection.

Fees Should Be Increased To Defray Program Costs

Livestock Board fees should be increased to cover a greater portion of program costs. Although the Board's program benefits the industry rather than the general public, fees currently pay only 25 percent of its costs. Increased fees would result in higher costs to the livestock industry. However, livestock programs in several western states are self supporting.

* The Livestock Board reduced the number of its inspectors when it instituted a self-inspection program for ranchers in 1981. Self-inspection allows ranchers to move livestock under some circumstances without an inspector's approval. This contributed to the reduction of inspectors from 82 in 1981 to 67 presently.

Although the Arizona livestock industry pays personal and real property taxes, we could not determine the amount contributed to the State General Fund.

Program Benefits Industry - The brand inspection program benefits the cattle industry almost exclusively, and other Board registration and verification activities benefit other segments of the livestock industry. Ownership records and brand inspections aid the industry by providing information and verification needed to deter theft and reduce losses from disease. However, the general public does not benefit directly from this program. Despite the limited benefits to the general public, the livestock industry fees supported less than 25 percent of program cost in fiscal year 1983-84 (Table 9).

TABLE 9

BRAND INSPECTION PROGRAM - EXPENDITURES AND REVENUES
FISCAL YEAR 1983-84

Program Expenditures	
Direct cost	$2,000,000
Indirect cost	300,000
Total Expenditures	$2,300,000
Revenue	
Field inspections	
Cattle	$134,000
Sheep and Goat	12,000
Horses	62,000
	$208,000
Auctions	$ 48,000
Feedlots	135,000
Dairies	8,000
Equine Transfers	$ 64,000
Brand Recording	90,000
Total Revenue	$553,000

Source: Livestock Board records and interviews

Increased Fee Impact - Because the inspection program provides little benefit to the general public, fees should cover program costs. The reduced program previously recommended would require an additional $888,000 in fees per year, and could necessitate substantial fee increases for typical activities. The following examples illustrate the cost of inspection based on average inspector, mileage, and vehicle costs.*

- Range Inspection - An inspector inspects two cattle before they are sold. The inspector drives about 25 miles to the inspection point. This activity takes about 1-1/2 hours, including 54 minutes of driving time and completion of all necessary paperwork. The actual cost is $23.30. The State collects $3.50, a difference of $19.80.

- Sale Yard Inspection - Three livestock officers assigned to a sale yard inspect 300 livestock. One inspector works 8 hours, two inspectors work 4 hours each. The cost for salaries is $168.48. This does not include any vehicle costs or inspector driving time. The State collects $75 if all animals are cattle, which have the highest inspection fees. The difference between the actual expenses and money collected is $93.48. No service fee is levied against the livestock owners.

Industry Fully Supports Program In Other States - In contrast to Arizona, the livestock industry fully supports regulation in some states. The programs in California, Colorado, New Mexico, Texas and Washington are fully self-supporting. The industry bears the cost of regulation through inspection fees and fines. Other states also use different methods for assessing the cost of state regulation. Montana and Nevada use different types of taxes to support their programs. Montana levies a mill tax on livestock, which is collected by the counties and used to offset program costs. Nevada charges livestock owners a livestock head tax which accounts for a portion of their budget. Only a portion of the Montana and Nevada operating budgets for brand inspection is raised by fees and permits.

* Costs are based on the salary of a Livestock Officer I and a mileage cost of 15 cents per mile to operate vehicles.

Because of the variation in the types of fees and the time required to inspect the various types of livestock, the Board should review its fee structure and those used in other states to determine the most efficent and equitable method of financing its livestock inspection activities.

Property Taxes - Although the livestock industry pays property taxes on livestock, the amount contributed to the State general fund cannot be determined. Industry representatives and Board members contend that property taxes assessed on livestock by Arizona counties are a significant burden for which livestock owners (primarily cattle owners) receive few county services. They feel that the industry's property tax payments entitle them to State-funded services from the Livestock Board. Some portion of these property tax payments are paid to the State General Fund. However, the counties do not separate livestock-related personal and real property taxes from other property taxes paid by the industry. Therefore, we could not determine the amount this tax contributes to the General Fund.*

CONCLUSION

Livestock ownership records and verification are necessary to deter potential theft and prevent disease. However, many Livestock Board activities are unnecessary and do not contribute significantly to achieving the Board's purpose. Eliminating unnecessary activities would allow the Board to reduce its staff by 25 FTE positions and save $620,000. Because ownership records and verification primarily benefit the industry, the Board should review its costs for these activities and recommend a structure that would pay for the full cost of these activities.

* One county official told us that the property tax on livestock is declining in importance as a revenue source due to changes in the nature of the livestock industry. With the trend toward feedlot production fewer ranchers raise cattle from calves to slaughter. Instead, many cattle are sold to feedlots during the year. Any livestock held less than one year are considered inventory rather than personal property and are not subject to personal property taxes.

RECOMMENDATIONS

1. The Legislature should consider amending A.R.S. §24-262.A and A.R.S. §§24-267.A, 24-267.B and 24-267.E to eliminate unnecessary livestock inspections. These unnecessary inspections include point of origin inspections when livestock are moved to a destination where inspections are also performed.

2. The Legislature should consider amending A.R.S. §24-108.A to eliminate the requirement that the Livestock Bord appoint an inspector in a locality upon petition by at least five cattlemen.

3. The Livestock Board should eliminate inspector responsibility for feed lien cases, and other miscellaneous cases.

4. The Livestock Board should review its expenses and revenues for ownership record and verification activities and recommend to the Legislature a fee schedule that fully supports the cost of the program activities.

FINDING II

STATE COULD SAVE $345,000 ANNUALLY BY USING FEDERAL MEAT AND POULTRY INSPECTION

Arizona should allow the United States Department of Agriculture (USDA) to assume all meat and poultry inspection responsibilities in the State. Under Federal law, the USDA must assume meat and poultry inspection duties if a state discontinues its meat inspection program. USDA inspection would save Arizona $345,000 annually and would provide other benefits. Although State-inspected plants may incur some costs as a result of the change to Federal inspection, USDA can modify its procedures to limit the cost to these plants.

USDA Must Inspect Meat And Poultry Plants If State Does Not

Federal law requires USDA to assume responsibility for all meat and poultry inspection in Arizona if the State chooses not to inspect meat and poultry. Since 1973, 23 states and seven of 12 western states have transferred their meat and poultry inspection programs to USDA. However, Arizona has maintained a cooperative meat and poultry inspection program with the Federal government.

Idaho
Wash
Ore
Cal
Ny
Utah
Nev
Ariz
Colo
Mont.
Wyoming
Tex?

The Federal Meat Inspection Act and the Poultry Products Inspection Act say that if a state does not maintain a meat and poultry inspection program equal to the Federal program, USDA must perform all meat and poultry inspection in that state. According to USDA, this Federal takeover can occur because a state fails: 1) to maintain a program that meets Federal standards, or 2) decides not to conduct its own program.

Because the Federal Meat Inspection Act allows for either state or Federal meat inspection programs, USDA is responsible for all meat and poultry inspection in approximately half the states. Since 1973, 23 states, including seven of the 12 western states, have been designated for

Federal inspection.* A USDA publication explains that some designations resulted from unacceptable state programs, but most occurred when a governor or state legislature requested designation to save state funds. Table 10 shows the trend toward Federal designation and highlights western states.

TABLE 10

DESIGNATION OF STATES FOR
FEDERAL MEAT AND POULTRY INSPECTION

1973-	Kentucky	North Dakota
1974-	Pennsylvania	
1975-	COLORADO	Connecticut
	Minnesota	Missouri
	MONTANA	Nebraska
	NEVADA	New Jersey
	New York	OREGON
	Tennessee	WASHINGTON
1976-	CALIFORNIA	Massachusetts
1979-	New Hampshire	
1981-	Maine	
1982-	Arkansas	IDAHO
	Michigan	Rhode Island

Sources: Code of Federal Regulations and USDA regional director

Arizona Inspection Program - In contrast to the states that rely on USDA for inspection, Arizona maintains its own inspection program in cooperation with USDA. This program applies only to plants whose products are sold for use in Arizona. Federal law requires USDA to inspect all meat and poultry in interstate commerce. Therefore, as of January 1984 USDA inspected meat or poultry in the 38 Arizona plants that

* Federal assumption of a state inspection program is called "designation." States in which USDA performs all meat inspection are called "designated states."

ship products across state lines or sell products to plants that ship interstate. The Arizona Livestock Board as of November 1984 inspected meat or poultry in 69 plants that sell only inside Arizona. In addition, the Livestock Board monitors sanitation and legal compliance in about 38 custom exempt meat plants.* The Arizona meat and poultry program has received high ratings during USDA quarterly reviews in the past few years, and a USDA official described Arizona's program as satisfactory at the February 1984 Board meeting.

State Would Benefit From Federal Meat Inspection

Arizona would realize significant savings and other benefits from USDA inspection. Arizona could save $345,000 annually by requesting that USDA designate Arizona for Federal inspection. In addition, the USDA program would provide the State with better trained meat inspection supervisors. Further, Federal inspection would remove marketing restrictions from State meat plants.

Federal Inspection Would Save Arizona $345,000 Annually - By requesting Federal designation, Arizona could save $345,000 annually. The total estimated direct cost of Arizona's meat and poultry inspection program in fiscal year 1984-85 is $691,500. One-half of this cost is reimbursed by USDA, so the estimated cost to the State is $345,750. Requesting designation for Federal inspection would eliminate this annual State expenditure for meat and poultry inspection activities. Table 11 lists the actual and estimated costs of the meat and poultry inspection program to the State.

* Custom plants prepare meat for personal consumption by individual animal owners. Because the meat is not sold to the public, it is exempt from inspection. However, State and Federal policies require quarterly visits to these plants to check sanitation and to ensure that they do not sell uninspected meat to the public.

TABLE 11

ACTUAL AND ESTIMATED STATE EXPENDITURES
FOR MEAT AND POULTRY INSPECTION
FISCAL YEARS 1982-83 THROUGH 1984-85

	Actual FY 1982-83	Actual FY 1983-84	Estimated FY 1984-85
Personal Services	$279,884	$239,377	$255,800
Employee Related	61,449	55,178	55,800
Travel	24,170	17,327	21,050
Professional Services	456	770	3,600
Other Operating	10,600	10,334	9,000
Capital Outlay	0	2,959	500
Total(1)	$376,559	$325,945 (2)	$345,750

(1) Indirect costs of the meat and poultry program do not appear in the expenditures but would be saved if the State program were eliminated. Indirect costs to the State were $38,809, $36,343 and $38,763, respectively for fiscal years 1982-83, 1983-84 and 1984-85.

(2) Lower cost in fiscal year 1983-84 resulted from vacant positions. If all funds had been expended, the fiscal year 1983-84 cost would have been $392,450. The lower fiscal year 1983-84 expenditures resulted in a decreased fiscal year 1984-85 allotment.

Source: Arizona Livestock Board expenditure ledgers for fiscal year 1982-83 through fiscal year 1983-84, and 1985 Appropriations Report for fiscal year 1984-85

Eliminating State responsibility for meat and poultry inspection in Arizona would not significantly change the rules, regulations and guidelines for meat and poultry inspection because the present cooperative inspection program already subjects the State to Federal requirements. To achieve its "at least equal to" status, the Arizona program had to develop and adopt legal and regulatory requirements like those of USDA. For instance, Arizona's meat and poultry regulations adopt all applicable Federal regulations by reference. In addition, the State program uses the Federal meat inspection manual and several Federal policy manuals as program guides. Further, the State program is subject to quarterly Federal review. Auditor General staff surveyed the Arizona plants that have changed from State to Federal inspection in the last 3 years and found that both programs provide the same level of inspection.

Supervisors Better Trained - In addition to cost savings, the USDA meat inspection program would provide better trained meat inspection supervisors for the State. USDA's slaughter supervisors are veterinarians, as required by the Code of Federal Regulations. In contrast, State inspection supervisors are not veterinarians but are supervised by veterinarians. New State inspectors study Federal meat and poultry inspection manuals in a classroom environment and receive some on-the-job instruction from experienced inspectors. No special training is required to become a State supervisor. In contrast, Federal slaughterhouse supervisors receive special training in Federal meat and poultry inspection school beyond their veterinary training.

Market Restrictions Removed - USDA inspection would also remove marketing restrictions from State-inspected meat plants. State-inspected meat plants may not ship products interstate or sell meat to any Federally inspected plant, inside or outside of Arizona. In contrast, Federally inspected meat and poultry plants may sell their products without restrictions. Therefore, State-inspected plants are operating at a disadvantage that would be removed under Federal inspection.* Eight of the 10 State-inspected plants that voluntarily changed to Federal inspection between March 1981 and November 1984 made the change to include Federal and out-of-State businesses in their clientele. Although State-inspected plants can voluntarily apply for Federal inspection, by doing so they forfeit allowances, such as the 3 year extension for necessary construction upgrades in their buildings, given to plants during designation.

Federal Procedures Limit Impact Of Change On State-Inspected Plants

Although State-inspected plants would incur some added costs as a result of Federal inspection, USDA procedures limit the impact of change on State plants. USDA waives some structural standards in plants being designated and allows plants 3 years to make necessary structural changes.

* According to the Livestock Board some state-inspected plants would not market interstate even with Federal inspection.

In addition, USDA usually hires most state inspectors to continue with the Federal program.

State Plants Will Incur Costs - State plants will incur some costs as a result of designation. Plants may experience one-time costs for construction blueprints and some recurring costs for overtime inspection. The actual cost that Arizona plants would incur as a result of Federal inspection is unknown. The experiences of states that have voluntarily transferred responsibility to USDA indicates that most Arizona plants will make a successful transition. However, [redacted] may force some plants to opt for a custom exempt retail exemption and [redacted] may cease operations.

Plants in Arizona may experience one-time costs for construction, blueprints and new product labels. Both USDA and the states use the USDA handbook Federal Facilities Requirements for Small Existing Meat Plants to waive structural requirements in existing plants. However, Federal officials apparently apply a stricter interpretation of this handbook than state meat inspection officials, because USDA has required structural changes in many plants while designating other states as Federally inspected states. Therefore, some State-inspected plants in Arizona would have to complete construction projects to obtain USDA inspection. Plants that do not have a set of blueprints would also incur the cost of producing blueprints for USDA approval, and all plants would have to redesign their labels with the Federal seal.

Meat plants may also experience increased overtime inspection charges under the Federal program. Inspection beyond normal 8 hour shifts is considered overtime. Under the State program, slaughter plants pay [redacted] per hour as of July 1984 for overtime inspection and processing plants pay nothing. Under USDA, all plants pay [redacted] per hour for overtime inspection. A review of the operating schedules of State-inspected processing plants showed that 48 percent of them could avoid any Federal overtime under their present schedules. An additional 13 percent could avoid overtime by changing their schedules by 3 hours

per week. According to a USDA official, overtime costs in the remaining plants would depend on: 1) whether the operations performed during extended hours require inspection, and 2) how many other plants on the same inspection route also operate overtime. For instance, if an inspector visits four plants daily, all of which operate 10 hours per day, the inspector would divide the overtime among the four plants and charge each plant 1/2 hour of overtime daily. These plants could avoid overtime costs by limiting their overtime activities to operations that do not require inspection.

The experience of states that have voluntarily transferred meat and poultry responsibilities to USDA indicate that most plants make a successful transition. The number of plants in states whose program effort was deemed at least equal to the Federal program changed little. Arkansas lost only 1 percent of its plants, Michigan experienced an 11 percent decrease in the number of plants while Idaho lost 8 percent of its plants. In each of these states some plants changed to a custom exempt status to remain in operation. In contrast, plant closures in states in which USDA took over inspection responsibilties because the program was deficient were as high as 24 percent.

Allowances for Existing Plants - The Federal designation process provides allowances to decrease the cost and impact of Federal inspection on State-inspected plants. Before the official designation date, Federal officials survey State plants to determine what immediate and long-term safety or sanitary changes each plant must make to qualify for Federal inspection. During these reviews, USDA waives some structural requirements in the state meat and poultry plants by using a handbook titled Federal Facilities Requirements for Small Existing Meat Plants instead of the more stringent Handbook 570, which applies to new construction and to voluntary applicants. These structural waivers do not affect product standards. USDA also alters its plant approval process during designation by allowing each plant 18 months after inspection is granted to produce blueprints and an additional 18 months to complete necessary construction projects. In addition, USDA provides

plants with approximately 5,000 pressure sensitive stickers to cover the plant's existing stock of labels. Plants that voluntarily apply for Federal inspection receive none of these benefits.

USDA Hires Qualified State Inspectors - USDA usually hires qualified state meat inspectors as needed when taking over a state program. According to USDA records, the Federal program hires an average of 62 percent of state employees when a state is designated. To effect this hiring process, a Federal contact person meets with state employees before the effective designation date. USDA personnel also work with the state agency and the state personnel department to determine employee experience and qualifications. USDA officials determine their personnel needs through the plant surveys conducted before designation and hire accordingly.

CONCLUSION

Arizona could save $345,000 annually by requesting that USDA assume the State meat inspection program. USDA inspection would provide [redacted] supervisors and would allow all meat plants now under State inspection to market their products to Federal and out-of-State plants and businesses. In addition, USDA would modify its plant approval process to decrease the impact of Federal inspection on State-inspected plants and would hire qualified State inspectors as needed to continue with the Federal program.

RECOMMENDATIONS

1. Arizona should request that the U.S. Secretary of Agriculture designate Arizona for Federal meat and poultry inspection.

2. If meat and poultry inspection is transferred to USDA, the Legislature should consider amending A.R.S. §§24-601 through 24-663 to delete provisions for State meat and poultry inspection.

FINDING III

LIVESTOCK BOARD NEEDS TO STRENGTHEN ENFORCEMENT EFFORTS

The Arizona Livestock Board has not fully exercised its existing authority to ensure compliance with laws under its jurisdiction. The Board has not taken action against several meat plants with repeated sanitary problems. Enforcement of brand inspection laws has been inconsistent. Lack of enforcement in cases involving Board members may create the appearance of a conflict of interest. The Board could improve enforcement by using hearing officers.

The Livestock Board's statutory purpose is to protect the livestock industry from theft and to ensure wholesome meat and poultry products for public consumption. Arizona law provides the Board with a variety of enforcement powers to meet its statutory purpose. A.R.S. §§24-106 and 24-645 state that any license issued by the Board may be suspended or revoked for violation of or noncompliance with the statutes, rules and regulations set forth by the Board. A.R.S. §24-645.D gives the Board the power to fine meat and poultry establishments up to $1,000 per violation. A.R.S. §24-646 allows the Board to refer cases to a county attorney or the Attorney General for prosecution.

The Board Has Not Taken Action Against Problem Plants

The Livestock Board has [illegible]sed its authority to enforce Arizona's meat laws. Although the Board has a range of enforcement options, it has not acted or has taken only limited action against several plants with repeated violations. As a result, its ability to deter potential problems may be lessened.

Enforcement Options - The Livestock Board has full authority to take action against meat packing plant owners who violate the law. The Board has several options to ensure compliance without taking formal action. Most problems are solved quickly. If a problem arises the inspector

assigned to the plant discusses it with plant officials and the problem is usually corrected on the spot. If a problem is not solved or cannot be solved within a reasonable time an inspector may choose to place a red tag on the item in question. A red tag means that the piece of equipment or the meat product cannot be used until the problem is solved. In most cases a red tag is a temporary action that leads to problem resolution within a short time. The Board may also take more stringent action for more serious violations. If a plant has a serious problem or continually refuses to correct deficiencies the Board may send the plant a notice of violation. These notices are infrequent and sent only when inspectors observe a violation of State law or regulation. If a notice of violation is sent and compliance is still not obtained, the Board can then take steps to refer the matter to the Attorney General or local prosecutor for legal action. The Board can also suspend the plant's operation, revoke the license or fine the owner in lieu of other action.

Limited Enforcement Action - The Board has taken little or no action on its own against chronic violators of meat and poultry sanitation laws and regulations. Although several plants have histories of repeat problems, the Board has not suspended any meat plant licenses for sanitary problems. Only three suspensions between January and December 1984 were imposed by Board staff, and these occurred when owners threatened or attempted to intimidate State meat inspectors. In addition, the Board has not fined any meat establishments since that power was given to them in 1982. Instead, it has relied on the courts for enforcement - an option that appears to provide little effective deterrence.

The Board's strongest action for health and sanitation violations in recent years has been to refer cases to county prosecutors, which often results in no action or lighter fines than the $1,000 fine per violation the Board can impose on its own. Referring cases to the superior court may not always be an effective means of enforcement because court prosecution has not resulted in penalties that prevent repeat violations. The Board referred 22 cases to the courts between March 1981 and November 1984. The courts dismissed two cases (one because the

statute of limitations had expired), one case is still pending, and the Board lacks information about three others. The Board dropped charges against one plant that changed to Federal inspection, and one owner was found in violation of State standards but not fined.

Thirteen cases resulted in fines, ten of which were $1,000 or less. The [redacted] significant penalty was a [redacted] payment by a company accused of selling uninspected meat to institutions and retail outlets. This involved numerous offenses occurring within a year. The company was not charged with any violation and negotiated the payment, which equaled its profit on the meat, with the county prosecutor.

Most court-imposed fines are low in relation to the violations involved. The long history of problems and multiple court referrals indicate that the Board's enforcement policy has little effect on repeat violators. For example:

- One meat plant has a history of noncompliance and sanitary problems dating from 1971. The plant has sold mislabeled and adulterated* meat. Since 1971 the plant has received 14 letters, two preliminary notices and eight incident reports. Since 1981 the Livestock Board has sent the plant seven notices of violation and the plant has been referred for prosecution three times. The Livestock Board referred the plant for prosecution in May 1982, July 1983 and August 1984. The court fined the owner [redacted] on two misdemeanor charges in August 1982, dismissed the second case in mid-1983, and fined the owner [redacted] in December 1984.

- Another meat plant was sent three notices of violation between 1981 and 1983. These violations were misbranding and adulteration of meat products as well as transporting and offering that meat for sale. In

* Adulterated meat is any meat or meat food product that contains poisonous or harmful substances, chemical additives, or food coloring that may render the product unfit for human consumption. Adulterated meat also includes meat or meat products prepared under unsanitary conditions, or meat with labels that provide misleading information on the value or content of the meat product.

four cases the plant purchased spoiled and returned meat to offer it for sale. The Board referred the company to the court for prosecution in January 1982 and the owner was charged with four different misdemeanor counts. The owner entered into a plea agreement for a misdemeanor charge of illegal transportation of meat in June 1983, and a fine and surcharge of $1,370 was imposed.

- A third meat establishment has been a source of problems since 1969. Between 1981 and 1982 the company received five notices of violation for problems such as an unacceptable sewer system, processing of products that had been held for further inspection by a meat inspector, mislabeling of products, unauthorized use of the State mark of inspection, failure to properly present products for inspection, and intimidation of the meat inspector. The Board referred the case to court in January 1982. In May 1984 the court found the owner innocent of the misdemeanor charges yet found the plant in violation of State standards and ordered the plant to bring the sewage system up to standard.

In addition to the low fines, these cases illustrate two other shortcomings of reliance on court enforcement. First, court action is often slow. One case lasted 17 months, another lasted more than 2 years. During this time the plants continued to operate. Second, the third example above shows that a plant can violate State meat plant standards without the owners being found guilty of a criminal violation of the law. Thus, clear violations may go unpunished.

When the Board relies on the court system to decide cases enforcement is weakened. Violations of most Board statutes are classified misdemeanors, which have a low priority in the court system. If a case is tried the punishment is usually low in relation to the violation and offenders have little incentive to refrain from illegal acts in the future. In contrast, the Livestock Board has the authority to hear these cases on its own and impose penalties for each violation. If the Board feels that further action is warranted it can still refer cases to the courts after taking action on its own.

Enforcement Of Self-Inspection Requirements Is Not Consistent

The Board has been inconsistent in enforcing brand laws governing self inspection of cattle. Although some violators are punished, the Board takes no action in other cases. Inconsistent enforcement weakens efforts to trace ownership of livestock through self inspection.

To reduce inspector work load and allow livestock owners to move cattle within the State without always requiring an inspection, the Board created a self-inspection form. Ranchers use the form when moving cattle from one location to another within Arizona as long as there is no ownership change.* Board policy concerning the self-inspection form is very specific and explained in detail on each book of certificates given to ranchers. The self-inspection certificates can be used only under certain circumstances.

- Ranchers may move only cattle using the self-inspection form, and no other livestock may be moved without an inspection;

- Movement cannot involve change of ownership; and

- The form cannot be used to move cattle without brands (excluding cattle under 4 months old accompanied by their mothers) or cattle with new brands.

To properly use the self-inspection form the owner must account for and completely fill out each certificate and void a form with any erasures or cross outs. Self-inspection forms may only be used for the brands specified on each form. Any falsification, substitution or alteration may result in use of the book being suspended or revoked. In such cases owners must have the animals inspected by a livestock officer before moving them.

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* Self inspection enables the Board to track movement of cattle as intended by brand inspection laws without necessitating a visit by a Board inspector.

The Board has punished some ranchers for violating self-inspection requirements. We identified 13 cases since mid-1981 when use of the forms was instituted, in which self-inspection books were revoked for a variety of reasons. In 12 cases we were able to document reasons for the suspension or revocation. Four self-inspection books were taken away because the owners used the forms when changing the ownership of livestock, one rancher used them when moving cattle owned by someone else, another was moving horses and using the form, one owner was moving cattle off an Indian reservation (which is not considered moving cattle within the State), and five books were suspended because the owner used the wrong book when moving cattle.

However, in at least three other cases the Board failed to punish ranchers who allegedly misused self-inspection forms.* None of these alleged violations appear to be less significant than the violations of the 13 ranchers who lost use of the self-inspection books.

- Between June 1982 and January 1983 a livestock owner allegedly used 20 self-inspection forms to improperly move 2,448 cattle. The owner used the forms for cattle that were branded with a brand different from the one on the self-inspection certificates. The owner should have fully understood the requirements for self-inspection since he was a Livestock Board member. However, this case was closed administratively and never referred to the Board.

- A livestock owner filled out a self-inspection certificate incorrectly: the certificate was not dated, the orginal destination was crossed out and a new one added, and the number of cattle being moved differed from the number shown on the form. Four of the cattle were seized by a livestock officer at a feedlot because they were not branded with the owner's brand. The Board returned the cattle and reimbursed the owner for all feed costs accrued while the animals

* Other examples of nonenforcement may exist but cannot be identified since Board records on self-inspection books and violations are incomplete.

were held since the inspector at the feedlot had not informed the livestock officer working in the rancher's locality of the seizure, as required by Board policy.

- A rancher brought six cows and five calves into a feedlot. Four of the cattle were newly branded. One cow did not have the owner's brand. The owner's cattle were seized and held for 10 days then returned when the rancher proved the cattle were his. This case was closed administratively and never referred to the Board. No action was taken to suspend or revoke the rancher's use of the self-inspection forms.

The Board does not fully protect the industry and the public when its enforcement is inconsistent or not exercised. Since self-inspection certificates assist the Livestock Board in keeping track of livestock movement, improper use or abuse of the forms reduces the reliablity of Board records.

Limited Enforcement Creates
Appearance Of Conflict Of Interest

The Board's reluctance to use its own authority to enforce meat and poultry laws and inconsistent enforcement of self-inspection requirements may create the appearance of a conflict of interest. The appearance of conflict is heightened when the parties involved are current or former Board members.

One meat plant owned by a Board member has a history of sanitary problems dating back to 1980. State and Federal inspectors have noted various sanitary problems within the plant, particularly in the meat processing department where the potential for contamination is highest. The problems included dirty equipment, flies outside the plant, flaking paint, plugged drains, and coolers with excessive ice formed on the freezing unit. State inspectors briefly halted processing three times in April 1980 and for 2 days in May 1984 for sanitation problems. Federal inspectors rated the plant unsanitary in reports issued in May and September 1984. Although a November 1984 Federal report found the plant's

sanitation to be acceptable, two consecutive unsanitary ratings is very unusual.*

Despite these problems, the Board has taken no action to ensure compliance. The area supervisor felt that plant officials should be called before the Board to explain why their license should not be suspended because of the sanitary problems. Board administrative officials stated that no action has been taken because no intentional violations have been observed. They added that the plant is old and will always have problems, and as long as the owner cooperates in resolving the problems no further action is needed.

However, in 1981 an inspector reported that the owner and employees improperly moved products that were being held because of potential contamination, which is a violation of Board rules and regulations. (Although such actions normally result in a notice of violation, none was issued in this instance.) In addition, Board inspectors have noted that the owner has not cooperated with their efforts to make necessary changes.

The Board's handling of cases involving its members creates an impression of favoritism. (Other plants have received notices of violations for problems comparable to those occurring in the plant owned by the Board member.) Similarly, the Board's inaction in the case of the Board member who moved 2,448 cattle incorrectly using self-inspection forms also suggests selective enforcement. The lack of action in that case is particulary glaring because the number of cattle involved was far higher than those moved by other ranchers whose privileges were suspended.

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* The plant's sanitary conditions are very poor compared with other State-inspected plants. Between January and October 1984 State inspectors identified and tagged a total of 21 pieces of equipment or food products in the plant that did not meet minimum sanitary requirements. A random sample of 11 other State-inspected plants identified a combined total of only 13 pieces of equipment or food products tagged for not meeting sanitary requirements. Thus, the plant in question had approximately 62 percent more unsanitary equipment or food products than all 11 sample plants.

Hearing Officers Would Improve The Process

The Board could use hearing officers to improve its effectiveness. Some Board members pointed out that they do not have legal backgrounds and therefore, feel more comfortable referring cases to court rather than taking Board action. However, the Board could use its authority to hire hearing officers to review the evidence, determine the facts and recommend appropriate enforcement actions to the Board. Hearing officers would provide needed legal expertise that Board members feel they lack and ensure greater objectivity in decision making.

If a full-time hearing officer were used, the salary and related expenses would be between $25,000 and $30,000. However, the Board would probably not need a full-time hearing officer. Between March 1981 and December 1984 the Board referred 22 meat and poultry cases to the courts for prosecution. Even a significant increase in the number of cases would not necessarily require a full-time hearing officer.

CONCLUSION

The Livestock Board has not adequately exercised its enforcement powers. The Board has not used its existing authority to penalize meat and poultry plant operators who violate its rules and regulations. Additionally, the Board does not ensure proper use of self-inspection forms. As a result, the Board's ability to protect the industry and the public may be limited. The Board's limited enforcement efforts may create the appearance of a conflict of interest, particularly when Board members are involved.

RECOMMENDATIONS

1. The Board should use its own authority to consistently penalize individuals and establishments that violate statutes, rules and regulations. The Board should refer cases for prosecution only for repeat violations or especially severe problems.

2. The Board should use its authority to hire and retain a hearing officer to take evidence and make recommendations to the Board in cases involving legal violations of its statutes and rules. The Board should use the hearing officer's recommendation to decide cases and impose penalties if warranted.

OTHER PERTINENT INFORMATION

During the Audit, other pertinent information was developed regarding the Livestock Board special investigations unit.

Livestock Board Special Investigations Unit

In 1982 the Livestock Board administrative staff created a special investigations unit to centralize livestock theft investigation. Originally, the unit consisted of six staff members. By 1984 the unit personnel consisted of three livestock officers. On April 11, 1984, the Livestock Board reorganized its investigation function and eliminated the unit. Currently, livestock officers employed by the Board are responsible for investigating cases within their jurisdiction, the same procedure as used before the unit was established.

Before the special investigations unit was established, relatively few people were convicted of livestock theft each year in Arizona. In 1982 the Legislature appropriated funds so the Livestock Board could create the investigations unit, which began operation in July 1982. After the unit was created, the conviction rate increased even though the number of investigations declined (Table 12). In the 6 months since investigative activity was reorganized, two cases have been investigated leading to four people being convicted of livestock crimes.

TABLE 12

LIVESTOCK THEFT INVESTIGATION AND CONVICTION RATES
FISCAL YEARS 1980-81 THROUGH 1983-84

Fiscal Year	Cases Investigated	Officers Involved	Convictions	
			Number	As a Percentage of Investigations
1980-81	297	72	6	2
1981-82	132	49	9	7
1982-83	115	6	22	19
1983-84(1)	22	3	9	40

(1) Through April 11, 1984

Source: Livestock Board data

Although conviction rates increased, the criminal activity involved appears to have been minor. Of the 46 cases the unit turned over for prosecution during its almost 2-year existence, seven (15 percent) involved fraud, or theft of saddles or other livestock related equipment. These cases, although related to the livestock industry, do not fall under the jurisdiction of the Livestock Board (Title 24) and were not handled by the Board before the investigations unit was created. Of the cases that did fall under the Livestock Board's jurisdiction, many involved monetary values below $1,000. Of the 39 cases referred for prosecution that fell under the Board's jurisdiction, 29 of them had monetary values placed on the stolen items, and 16 of the 29 involved losses of $1,000 or less.

Some sheriffs, particularly in larger counties, questioned the unit's effectiveness and the qualifications of its personnel. The sheriffs reported that their departments were able to handle investigations of criminal activity involving livestock. The capability of sheriffs' departments appears adequate in light of the fact that criminal activity in the livestock industry appears to be rather low in Arizona. A survey of daily reports completed by livestock inspectors identified no significant amount of crime reported to the Board. The number of livestock involved is relatively small and the value is usually not great. In addition, none of Arizona's 15 county sheriff's departments identified livestock theft as a major problem. Thus, the value of the investigations unit may have been negligible.

Despite the minor nature of the unit's convictions, the Livestock Board was never very clear in its reasons for reorganizing its investigative activity. Although Board members cited a number of reasons for disbanding the unit, statements made at the April 1984 Board meeting indicate that no attempt was made to address these problems before disbanding the unit. For example, several Board members complained that the unit needed more direction from the Board itself. However, at least one Board member pointed out that there had been ample time to direct the unit and little effort put forth in providing any guidance. The Board also complained that increased coordination was needed with other law enforcement agencies, yet the Board made little attempt during the unit's existence to

ensure that lines of communication remained open. Thus, the Board was never able to clearly articulate the specific reason or reasons for disbanding the investigations unit, nor did the Board provide a logical rationale for not taking steps earlier to provide greater direction to the unit.

Because of the controversy surrounding the reorganization of the investigations unit, the Arizona Department of Public Safety (DPS) investigated the Board's action to determine whether the Board disbanded the unit to obstruct ongoing investigations. The DPS completed its investigation in September 1984 and found no evidence of conflict of interest, conspiracy or obstruction of justice in the Board's action.

AREAS FOR FURTHER AUDIT WORK

In Finding I we reviewed the need for further work regarding inspector productivity and the disposition of livestock property taxes. During the course of the audit, we also identified several other potential issues that we were unable to complete due to time constraints. We have listed these issues as areas for further audit work.

- Does the Livestock Board need to establish stricter control over its fee collection process?

  Livestock inspectors collected $264,000 during 1983-84, approximately half of the Board's fee receipts. Monies collected by livestock inspectors are remitted to the Livestock Board Office once a month. Sometimes officers turn in fee amounts that differ from the amount expected for the number of inspections conducted. Officers sometimes mail in cash to cover the month's fees collected, and some officers turn in fee monies late. Further audit work is necessary to document the extent of these problems and to determine what procedures will ensure adequate control of funds collected.

- Does the Livestock Board need to store data from inspection certificates at the Department of Administration's (DOA) Data Center?

  The Livestock Board stores data from livestock inspections with the DOA Data Center. The data storage costs totaled more than $53,000 between May 1982 and September 1984. The U.S. Bureau of Land Management (BLM) contributed funds to establish the system but the Livestock Board pays all maintenance and storage costs. Currently, BLM does not use this information and the Livestock Board only uses limited categories. Further audit work is needed to fully document costs and data use.

- Could the Livestock Board manage records more efficiently?

  The Livestock Board must maintain a variety of records covering a wide range of livestock activities. These include ownership and brand records, inspection records, and inspectors' daily reports. Many of these records are not cross-filed, and retrieval is difficult if all the needed information is not known. During the course of our audit we also discovered some missing daily reports and many daily reports that lacked information on final action. Although the Board does have a computer and access to computer use, it does not use these computers for processing and storing most records. Further audit work is needed to document the extent to which Board records are incomplete or inaccessible and to develop recommendations for improving management techniques.

- Does the Livestock Board adequately manage its vehicle fleet?

  The Livestock Board owns 56 vehicles and leases 20 vehicles from the Department of Administration Motor Pool. Vehicles owned by the Board averaged more than 16,000 miles in 1983-84, and motor pool vehicles traveled an average of approximately 8,710 miles. Total costs for vehicle operations in fiscal year 1983-84 were $178,555. Further audit work is needed to determine whether: 1) owning or leasing vehicles is the better means of meeting the Board's transportation needs, 2) vehicles are efficiently utilized, and 3) the Board has adequate information to manage its vehicle fleet.

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J. KENNETH CHILTON, CHAIRMAN
TUCSON • CATTLE GROWER
GLEN BINGHAM
SAFFORD • SWINE INDUSTRY
EDWARD H. BRICKER, JR.
QUEEN CREEK • CATTLE FEEDER
DWAYNE DOBSON
CHANDLER • SHEEP INDUSTRY
ATHENE GILMORE
TUCSON • EQUINE INDUSTRY
KERRY L. JONES
YUMA • MEAT PACKING
KENNETH MORRISON
HIGLEY • DAIRY INDUSTRY
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HAND DELIVERED

March 6, 1985

MAR 1985
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AUDITOR
GENERAL

Mr. Douglas R. Norton
Auditor General
111 West Monroe, Suite 600
Phoenix, Arizona 85003

Dear Mr. Norton:

Our formal comments to the issues raised in the performance audit are expressed herein. Due to the ten workday limitation permitted to prepare this response, our comments are directed only to the more significant conclusions reached by your staff and their attendant recommendations.

FINDING I: SAVINGS BY ELIMINATING UNNECESSARY LIVESTOCK INSPECTION ACTIVITIES

The report adequately addresses manpower needs for inspection activities following the enactment of legislation to eliminate some point of origin inspection. The report, however, does not sufficiently take into account the manpower needs involved in other activities such as the handling of strays and seizures, theft investigations, highway or railroad kills and monitoring livestock movements. Nor does the report take into account the three office clerical FTE's in this program which are included in the total 67 FTE's authorized.

Pg. 15 of the report states that none of the 15 sheriff's departments in Arizona indentified livestock theft as a major problem. As we pointed out in our previous written and oral responses to this statement, nearly all livestock cases in Gila, Maricopa and Pinal Counties are referred to us for either individual or joint handling. We are also involved in cases referred to us by other Counties and City Police Departments. Since livestock cases generally involve violations of a low misdemeanor classification, they do not receive the proper attention by other law enforcement agencies. Also, most other agencies do not have personnel trained to

investigate the various types of violations which occur. Not assigning manpower to work such cases might well lead other agencies to conclude, as stated, that the problem is not significant. Of interest also is the fact that livestock cases in other agencies are catergorized under vandalism (illegal butcherings) or criminal damage (livestock missing or stolen). The continuing efforts of livestock personnel in this area of activity is required if protection to the industry is to be afforded.

The agency's road stop program referred to on Page 18 has increased in recent years as personnel were freed from point of origin inspections due to expanding usage of rancher self-inspection forms. In 1984, this activity was implemented as a regularly scheduled program function with one man per vehicle handling road stops during daylight hours and two men per vehicle handling road stops at night. As with the conversion of ranchers from utilizing livestock inspection personnel to completing their own self-inspection forms, the process of training and motivating livestock officers to switch from day to night work has been slow. The installation of high-band mobile radios in all vehicles in late 1984 enables contact with other law enforcement agencies, a protection vital to night work. In 1985, it is anticipated we will have from five to eight two-man teams monitoring night movement of livestock going out of state. As the need for expansion or reduction of personnel assigned to this activity is determined, staffing adjustments will be made accordingly.

In Summary, with elimination of waivers on inspections at points of origin and correspondingly, required use of self-inspection forms by owners of branded livestock; with elimination of involvement in feed lien sales; with wider utilization of part-time personnel in areas of low density livestock numbers and with statistics developed from an on-going twenty-four hour monitoring of livestock movement, we expect to commence an orderly reduction of staffing requirements in F/Y 1986-1987.

FINDING II: STATE VS. FEDERAL MEAT INSPECTION PROGRAM

This question was the subject of a Legislative review during the 1983 Session; not because of lack of confidence in the administering of the program at the State level but simply due to constraints feared from an anticipated revenue short-fall. The philosophical issue of a State's rights and responsibilities vs. Federal intervention and dictates must again be addressed. Simply put, all persons desiring to continue to slaughter and/or process meat and meat products for resale under State inspection may continue to do so as long as they comply with State statutes and Board regulations which are designed to provide an inspection service on an "equal to" status to the Federal program. In order to meet the physical plant facility requirements to qualify for acceptance under Federal inspection service, all plants presently under State inspection would have to invest substantial amounts of capital or withdraw from the retail market or close their doors. The reference to the removal of marketing restrictions under Federal inspection (Pg. 31) is misleading to anyone who is knowledgeable about the market areas presently served by plants under State

inspection. We deal almost exclusively with small family-type operations which generally serve the retail trade in their geographic area. Any of these plants have to option to apply for Federal inspection at any time; the fact that they have not chosen to do so speaks for itself.

FINDING III: NEED TO STRENGTHEN ENFORCEMENT EFFORTS

Rather than to cite violators and refer such actions for prosecution, the report recommends the Board of Directors, acting under statutory authority, hear and dispose of such actions themselves or engage the services of a hearing officer and follow ensuing determinations. This recommendation was well received and a study is now underway to determine benefits, time frames and costs. For the record, some members of the Board of Directors, past and present, have not felt qualified to personally act in this area of authority, electing instead to refer cases for prosecution where both parties would be represented by counsel. The fact that cases adjudicated in courts of law resulted in lessor penalties than might have been imposed by the Board should not be an issue. Under the options available to it, the Board's actions demonstrated recognition and handling of its' responsibilities consistent with the advice and consent of the Assistant Attorney General representing the Board.

The report's table of contents assigns Pg. 53 for the agency's response to the questions raised in the Areas For Further Audit Work. In order, I will briefly touch on each issue.

- The agency policy for collecting, accounting for and remitting livestock inspection fees to the Board has been reviewed many times over the years by your financial audit staff. In addition, opinions received from the Office of Attorney General supported this procedure which has remained virtually unchanged.

- Detailed cost/benefit decisions were made prior to computerizing certain livestock inspection data. Plans are in progress to more completely automate all inspection data which is required pursuant to A.R.S. §24-104 (3) to be maintained permanently. Access to records stored by DOA Data Center is immediate and eliminates the many hours of research previously required to produce copies of certificates.

- Daily reports, since this deficiency was pointed out by your staff are now cross-filed. In addition, the responsibility for obtaining final dispositions on all reports has been assigned to program personnel.

- Agency management of vehicles owned as well as vehicles assigned by DOA Motor Pool has resulted in the accumulation and review of voluminous statistics over the years. Beginning with FY 1985-1986, this responsibility at the agency level will be eliminated within three to four years. Funding for agency vehicle replacements (24 in our 1985-1986

budget request) will be appropriated directly to DOA. Eventually, all vehicles used in the agency will be assigned by the Motor Pool.

Pg. 63 provides for the agency's response to the review of the State Veterinarian's powers and duties. We are in complete accord with your findings and support the recommendation on Pg. 62 to strengthen the penalty provision.

Although Board members, agency staff and I initially viewed your audit and report with some concerns, I was pleased to note the many positive aspects addressed and the questions of involvement raised for our further study. I now view your report as a guide to eliminating certain activities and improving both the effectiveness and efficiency of our operations.

Sincerely,

Earl Kelly
Director

EK:blt

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a limited review of the State Veterinarian in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. This limited review was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2351 through 41-2379.

State Veterinarian Powers And Duties

The State Veterinarian is authorized by law to enforce State animal disease control laws and regulations under the guidance of the Arizona Livestock Board. The State Veterinarian supervises the Board's animal disease control staff, which investigates reported cases of contagious animal disease and controls the movement of diseased animals into and within Arizona. The State Veterinarian controls movement of diseased animals into the State by examining and issuing entry permits for animals transported into Arizona, and controls movement of diseased animals within the state through quarantines and hold orders on Arizona livestock. Other disease control methods include: 1) inspecting swine garbage feeders* and beef cattle feedlots, 2) issuing permits to garbage feeders and licenses to feedlots, 3) verifying that shippers retest animals for disease when they arrive in Arizona, 4) retesting herds that react to the brucellosis ring test, and 5) tracing disease to the herd of origin through existing livestock records.

The State Veterinarian and the animal disease control staff perform some of their activities in conjunction with United States Department of Agriculture, Animal and Plant Health Inspection Service (USDA-APHIS) through a cooperative work agreement. USDA-APHIS has 23 full-time employees, and plays a significant role in controlling livestock diseases that are covered under a Federal eradication program, such as bovine brucellosis. Federal personnel perform most disease control functions in outlying areas.

* Swine garbage feeders are premises where swine are fed on garbage which contains waste parts of animals or poultry. Periodic inspections are intended to ensure that fed garbage is cooked or treated before use.

Budget And Personnel

The State Veterinarian directs the animal disease control staff within the Arizona Livestock Board. Two assistant State veterinarians, a livestock officer, and a secretary work in the Animal Disease Control Division under the State Veterinarian. The animal disease control budget is part of a lump sum agency appropriation from the General Fund. The actual and projected expenditures for animal disease control in fiscal year 1982 through fiscal year 1985 are shown in Table 1.

TABLE 1

ANIMAL DISEASE CONTROL EXPENDITURES (ACTUAL OR APPROVED)
FISCAL YEARS 1981-82 THROUGH 1984-85

	Actual 1981-82	Actual 1982-83	Actual 1983-84	Approved 1984-85
Budgeted Full-Time Equivalent Positions	5	5	5	5
Expenditures:				
Personal Services	$109,600	$106,900	$ 80,892	$123,300
Employee Related	24,800	24,000	18,760	25,900
Profess. & Outside Svcs.	0	0	0	0
Travel:				
Out-Of-State	1,900	400	578	900
In-State	21,200	8,800	9,989	11,500
Other Operating	12,600	8,800	35,952	10,000
Equipment	7,600	0	414	0
Disease Control	19,100	0	0	0
Total Expenditures	$196,800	$148,900	$146,585	$171,600

Source: Joint Legislative Budget Committee Appropriations Report, Livestock Board budget requests, and Livestock Board expenditure ledgers

Audit Scope and Purpose

Our purpose in reviewing the State Veterinarian was to address the 12 Sunset Factors set forth in A.R.S. §41-2354.

The Auditor General and staff express their appreciation to the State Veterinarian and animal disease control staff for their cooperation and assistance during the course of our audit.

SUNSET FACTORS

In accordance with A.R.S. §§41-2354 through 41-2379, the Legislature should consider the following 12 factors in determining whether the State Veterinarian should be continued or terminated.

1. Objective and purpose in establishing the State Veterinarian

The objective and purpose of the State Veterinarian is to control animal disease in Arizona as authorized by statute, under the direction of the Arizona Livestock Board. The State Veterinarian's specific duties include suggesting new animal disease control regulations for promulgation by the Board, examining animals suspected of having contagious diseases and taking custody of them if necessary, approving or denying the entry of animals into Arizona, imposing quarantines with Board authorization, and establishing procedures for the administration of euthanasia solutions to animals.

2. The effectiveness with which the State Veterinarian has met its objective and purpose and the efficiency with which it has operated

The State Veterinarian has been effective in controlling animal disease in Arizona. According to the United States Department of Agriculture, Animal and Plant Health Inspection Service (USDA-APHIS), Arizona has a low frequency of brucellosis and tuberculosis. The State Veterinarian reports a low incidence of other contagious diseases such as pseudorabies,* scabies and hog cholera. The effectiveness of the State Veterinarian is due at least in part to a working relationship with Federal animal disease control personnel. USDA-APHIS has 23 full-time animal disease control personnel in Arizona. Some of the work performed by the State Veterinarian and the four-member animal disease control staff is done to assist

* Pseudorabies or Aujeszky's disease is a herpes virus that causes sows to abort or produce stillborn offspring and may cause sudden death in baby pigs. The virus is transmissible to most mammals and birds, but not to humans.

USDA-APHIS in Federal disease eradication programs through a cooperative work agreement. USDA-APHIS also expends funds on livestock diseases not included in Federal eradication programs.

3. The extent to which the State Veterinarian has operated within the public interest

The State Veterinarian has operated within the public interest by controlling animal diseases such as tuberculosis and brucellosis (undulant fever) which are communicable to humans, and other diseases that affect the livestock industry in Arizona.

4. The extent to which rules and regulations promulgated by the State Veterinarian are consistent with the legislative mandate

A.R.S. §24-104.B allows the Arizona Livestock Board to promulgate animal disease control rules and regulations with the advice of the State Veterinarian. The Board has made additions and deletions with the advice of the State Veterinarian in recent years. For instance, new regulations to control pseudorabies in swine took effect in 1984. Our review of the State Veterinarian found no inconsistencies with the laws and regulations for animal disease control.

5. The extent to which the State Veterinarian has encouraged input from the public before promulgating its rules and regulations and the extent to which it has informed the public as to its actions and their expected impact on the public

The State Veterinarian and the Livestock Board have notified the livestock industry and the public of proposed rules and regulations for animal disease control. Before promulgating the 1984 pseudorabies regulations, the board held hearings with the Arizona Pork Producers and the public. In addition, the State Veterinarian took steps to notify the public in general of the nature and effects of a pseudorabies outbreak. Our review indicates that the State

Veterinarian and the board have complied with the open meeting law in matters relating to animal disease control.

6. The extent to which the State Veterinarian has been able to investigate and resolve complaints that are within its jurisdiction

The State Veterinarian receives few complaints regarding animal disease. Our audit work identified only one substantive complaint. In 1981 a citizen alleged that diseased animals were being slaughtered and fed to State prison inmates. The State Veterinarian responded in writing within a week and the assistant State veterinarian conducted an on-site investigation and produced a written report within 10 days.

Most other complaints received by the State Veterinarian are minor. For example, a livestock trader may call to complain that cattle are being held up by a livestock officer because they were being shipped without a health certificate. In such cases, the animals are immediately examined and issued health certificates if no problems are found. Occasionally, cattle owners question lab tests that reveal disease in a herd. A retest is usually conducted.

7. The extent to which the Attorney General or any other applicable agency of State government has the authority to prosecute actions under enabling legislation

Under A.R.S. §24-105.B, violating a lawful order, rule, regulation or quarantine issued to control animal disease is a class 2 misdemeanor and as such is subject to prosecution by the Attorney General's Office or a county attorney's office. However, the Attorney General representative to the Arizona Livestock Board considers this classification to be inadequate for deliberate violations of quarantines that protect public as well as animal health. For instance, deliberate and unauthorized movement of cattle under quarantine for tuberculosis could threaten public health. The

Attorney General representative recommends that breaking such a quarantine be a class 1 misdemeanor or class 6 felony.

8. The extent to which the State Veterinarian has addressed deficiencies in the enabling statutes which prevent it from fulfilling its statutory mandate

Our review revealed no legislative proposals from the State Veterinarian over the past decade. However, according to the State Veterinarian and the Attorney General representative, the law as it stands has been sufficient to allow the State Veterinarian to fulfill the legislative mandate. We found no evidence to the contrary.

9. The extent to which changes are necessary in the laws of the State Veterinarian to adequately comply with factors listed in the Sunset Law

We identified no necessary changes in livestock laws relating to animal disease control.

10. The extent to which termination of the State Veterinarian would significantly harm the public health, safety, or welfare

Complete elimination of the State Veterinarian and all State animal disease control authority would harm animal disease control in Arizona. Although USDA-APHIS could assume some State animal disease control activities, several important activities would not be performed without a State program.

According to a USDA-APHIS official, the State Veterinarian's participation in herd retesting, garbage feeder inspection, disease tracing, and other disease control activities done in cooperation with Federal personnel could be assumed by USDA-APHIS if the animal disease control staff were reduced. However, eliminating the State Veterinarian position and all State participation in animal disease

control would limit animal disease control in Arizona. The State Veterinarian and the animal disease control staff, with the consent of the Livestock Board, perform disease control activities that Federal officials conside[redacted] to an effective intrastate program. These activities include quarantining and controlling animal movement, issuing entry permits, approving health certificates, and requiring retesting of imported animals. USDA-APHIS would not assume these duties in the absence of a State program.

11. <u>The extent to which the level of regulation exercised by the State Veterinarian is appropriate and whether less or more stringent levels of regulation would be appropriate</u>

The level of regulation exercised by the State Veterinarian on the livestock industry appears adequate and not overrestrictive. Unnecessary regulation on certain segments of the industry has been eliminated in recent years. For instance, some sheep and goat disease control measures are no longer included in the law because these animals present few disease problems in Arizona.

12. <u>The extent to which the State Veterinarian has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished</u>

The State Veterinarian has used private veterinarians on contract in the past to assist in animal disease testing.

The Agency's response to the limited review of the State Veterinarian is included on page 4 of the Agency's response to the performance audit of the Livestock Board.