



State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

**Department of Agriculture
Division of Animal Industries**

Report No. 15-02
December 2014

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Department of Agriculture, Division of Animal Industries

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The division should enhance oversight of brand fee collections to help Nevada receive the revenue established by statute. Better oversight of the brand inspection process could benefit the state by just over \$130,000 the first year and about \$117,000 annually thereafter. Brand inspection fees are \$10 for the first animal and \$1 per head thereafter. In 2013, division records account for approximately 354,000 cattle inspected; however, cattle inspected may have been as much as 471,000 based on the amount paid to the Nevada Beef Council, which receives \$1 per head per sale. The beef council received \$259,000 from sales. We found sales accounted for 55 percent of total inspections; 45 percent were for other reasons, such as movement for grazing. Better oversight would increase accountability, transparency, and ensure owners are treated consistently.

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The division should enhance oversight of procedures for waiving fees to help Nevada receive the revenue established by statute. Better oversight of waiving fees could benefit the state by up to \$21,000 annually. We found the \$10 brand inspection fee for the first animal was waived about 20 percent of the time; however, there was no documentation that indicated why the fee was waived. There are no policies and procedures that guide brand inspectors for when waiving the fee is appropriate and how to record the waiver. Better oversight would increase accountability, transparency, and ensure owners are treated consistently.

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The division should enhance oversight of livestock tax self-reporting to help Nevada receive the revenue established by statute. Better oversight of the self-reported livestock tax numbers could benefit the state by up to \$60,000 the first year and up to \$20,500 annually thereafter. The livestock tax is 50 cents per head annually for beef cattle and 60 cents for dairy cattle. In 2013, owners self-reported 410,000 cattle for purposes of paying the livestock tax. Our review shows the number of cattle could be under reported by up to 41,000 based on the 2012 self-reported amount of cattle adjusted for the calving rate or by about 14,000 using the 2013 brand inspection projection adjusted for out of state cattle grazing in Nevada. Additionally, the U.S. Department of Agriculture’s estimate of Nevada’s cattle population in 2013 was 460,000. Nevada statute gives the Department of Agriculture authority to approve the self-reported livestock tax as well as challenge the accuracy of reported numbers. Better oversight would increase accountability, transparency, and ensure owners are treated consistently.

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The division should reconcile self-reported livestock tax numbers and brand inspection numbers to ensure Nevada receives the revenue established by statute. The division reported they have not audited self-reported numbers of cattle or challenged the numbers. The division does not track or reconcile self-reported numbers with brand inspection numbers on a systematic basis to determine if self-reported numbers are reasonable. Reconciling information from owners and inspectors would increase accountability, transparency, and ensure owners are treated consistently.

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The department plans to upgrade the division’s enforcement staff operations to enhance professionalism, better manage revenue collections, and assure public health issues are monitored. Upgrades include: implementing an automated brand inspection process to record and document inspection information, including payments; implementing a centralized dispatch system to more efficiently assign staff; using state vehicles to lower travel expenses for part-time inspectors; and initiating annual training for enforcement staff. The upgraded operations should allow management and enforcement staff to more effectively address shortcomings in the inspection process. Up to 76 part-time inspectors are located throughout Nevada to respond to calls for a brand inspection. In 2013, 64 part-time inspectors were compensated for work; the highest compensated inspector received just over \$25,000 and the lowest received just under \$25. Almost two-thirds of brand revenues collected by the division were attributed to just over 15 percent of part-time inspectors.

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The division should consider transitioning to contract brand inspectors, which could benefit the state by over \$100,000 annually. The division used 64 part-time inspectors to fill the 4.0 full-time equivalent positions funded in 2013. Records show 4 of the 64 part-time inspectors accounted for over 2.5 of the 4.0 the full-time equivalent positions. The division incurred overtime and holiday pay costs for part-time inspectors working more than the standard daily work hours. Additionally, as state employees, the part-time inspectors are paid the same hourly rate for travel time as for work time; 40 percent of total inspection time is for travel, on average. The State Administrative Manual authorizes paying a contractor the same rate when in travel status if the state agency and contractor agree on the scope of work to be accomplished while traveling. When inspectors are driving and receiving reimbursement for using personal vehicles, there is no work that can be accomplished because part-time inspectors have no patrol function. Better managing part-time inspectors will reduce spending and help ensure accountability for fee-generated funds. Increased efficiencies could allow the division to consider lowering fees, which could benefit all Nevada cattle owners.

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The division should establish and monitor performance measures and administrative policies and procedures to enhance enforcement staff accountability. Performance measures and administrative policies and procedures will help managers assess how well staff is performing and introduce accountability into the enforcement and personnel processes. There were no written performance measures to help guide enforcement staff operations. Administrative policies and procedures were not in place for performing, tracking and monitoring human resources requirements, vehicle use, and some enforcement operations. There were no division records or only incomplete records to review. Establishing and monitoring performance measures, administrative policies and procedures, and maintaining required records will increase productivity, transparency, and ensure managers follow state guidelines.

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The division should establish policies and procedures that address using NRS authorities to enhance enforcement staff accountability. Using NRS authorities will help division managers and enforcement staff protect the public and provide consequences for those who violate state law. The division does not, in general, collect revenue from fines for violating state laws relating to brand inspections, incomplete or missing health certificates, or other violations. There were no written policies and procedures to guide enforcement officers and part-time inspectors about enforcing statutes that establish fees, including the division's oversight function to monitor the various fee processes. The division prefers to educate violators to rectify non-compliant behavior rather than impose sanctions against producers, transporters, and others working in animal industries. Other states enforce laws through warnings at the same rate as Nevada; however, other states issue citations with fines at a rate three times that of Nevada. Establishing policies and procedures for enforcing state laws would help guide enforcement staff decisions, provide incentives for complying with brand inspection requirements, and help assure Nevadans remain safe from potential public health issues.

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INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Agriculture (department), Division of Animal Industries (division). Our audit addressed the following four questions:

- ✓ What is the division's role?
- ✓ What services must the division provide?
- ✓ Is the state the proper level of government to provide these services?
- ✓ If state government is the proper level of government, is the division carrying out its duties efficiently and effectively?

Our audit focused on the division's collection of revenue and the productivity of the enforcement staff.

Division's Role and Public Purpose

The division is one of five in the department and is mostly funded by fee revenues. Its fiscal year 2014 budget was approximately \$2 million. The division is made up of three sub-divisions:

- **Animal Disease Food and Safety Lab's** role is the diagnosis and eradication of quarantinable animal diseases in cooperation with federal agencies, private veterinarians, and livestock owners. It is also responsible for the diagnosis and control of animal diseases that are of economic or public health significance.
- **Nevada Wildlife Services'** role is to protect Nevada's agriculture, natural resources, property, and public safety from the threat of injury, damage, or resource loss due to wildlife.
- **Livestock Identification's** role is to protect livestock producers and owners from theft and unfair business practices through the recording of brands and then through the inspection of those brands on livestock presented for sale, shipment out of state or district, and prior to slaughter. The division also licenses livestock and agriculture product buyers.

The division has offices in Sparks and Elko with full-time enforcement officers and part-time inspectors. The four full-time enforcement officers are certified in Police Officer Standards and Training (POST). Enforcement officers patrol roadways and are authorized to stop vehicles carrying livestock to check for

proof of ownership and required health documentation. These officers also investigate livestock theft, losses on roads and railways, and process stray animals. In addition, there are up to 76 part-time brand inspectors who are not POST certified; therefore, not authorized to sanction offenders for breaking the law.

The division manages three primary revenue sources: brand inspection fees, self-reported livestock tax, and beef council fees. Brand inspection fees and livestock tax revenue support division operations. Beef council fees are pass-through funds collected by the division and turned over to the Nevada Beef Council. The Nevada Beef Council is a non-profit organization with an office in California and is associated with the National Beef Council. Beef council fees support promotion and marketing efforts on behalf of the Nevada beef industry. The division also receives revenue from licensing sale barns and livestock brokers and agents.

Proper Level of Government

The state is the proper level of government to provide these services because they relate to law enforcement and public health issues. The division enforces Nevada Revised Statutes (NRS) and protects the public and livestock within state boundaries by assuring compliance with agricultural regulations, including health certifications by producers shipping livestock.

Objectives and Scope

Our audit focused on the following objectives:

- ✓ Can the division increase revenue collections?
- ✓ Can the division enhance management and enforcement staff accountability?

We began the audit in October 2013. In the course of our work, we interviewed department and division staff and discussed processes inherent to the division's authorities. We reviewed division records for fiscal years 2012 through 2014, applicable Nevada Revised Statutes, and other state guidelines. We also surveyed other states, comparing enforcement and inspection processes. We concluded field work and testing in July 2014.

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing*.

We express appreciation to the department director, division administrator, and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Department of Agriculture Response and Implementation Plan

We provided draft copies of this report to the department and division officials for their review and comments. Their comments have been considered in the preparation of this report and are included in Appendix A. In its response, the department accepted our recommendations. Appendix B includes a timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and department officials.

The following report contains our findings, conclusions, and recommendations.

Can the Division Increase Revenue Collections?

The division can increase revenue collections by enhancing oversight of brand inspection fees, policies and procedures for waiving fees, and the self-reported livestock tax; and by reconciling numbers of cattle reported by owners and inspectors. Better oversight and reconciliation of revenue collected by the division could benefit the state by almost \$211,000 the first year and over \$158,000 annually thereafter.

Some Cattle May Not Be Brand Inspected

The division can increase inspection fee revenues by enhancing oversight of the brand inspection process. Better oversight of the brand inspection process could benefit the state by just over \$130,000 the first year and about \$117,000 annually thereafter.

In fiscal year 2013, the division collected just over \$625,000 from brand inspection fees. The brand fee is \$10 for the first animal and \$1 per head thereafter.

Our review shows about 117,000 cattle may not have been inspected. We noted the number of cattle inspected for brands declined about ten percent between 2012 and 2013. Beef council fees show the number of cattle sold between the two years increased about 12 percent.

NRS 565 establishes the system of brand inspections in the state. The division's website informs the public a brand inspection is required on all cattle and horse species:

- For all changes of ownership, regardless of buying, selling, or gifting, as well as slaughter;
- Regardless if sold or purchased through local want ads, grocery store flyers, Craig's List, etc.;
- For all transportation across district lines within the state and to leave the state; and
- If entering Nevada from a brand inspection state;
- If entering from a non-brand inspection state, legal proof of ownership is required.

We reviewed 2013 brand inspection fee information for cattle and found 55 percent of inspections were for sales and 45 percent of inspections were for other reasons, such as movement for grazing. Of those cattle inspected for other than sale, the division estimates approximately 10 percent were for out-of-state cattle grazing in Nevada.

Each sale results in \$1 going to the Nevada Beef Council to promote the beef industry. In 2013, the beef council received \$259,000 from sales, equating to 259,000 head of cattle. The results of our testing show this represents about 55 percent of cattle involved in brand inspections. The other 45 percent of cattle involved in brand inspections are for other reasons. Consequently, the total number of cattle involved in brand inspections should have been about 471,000. However, in 2013, division records only account for approximately 354,000 cattle inspected. See Exhibit I.

Exhibit I

Uninspected Cattle and Brand Inspection Fees

2013 Cattle Inspected per Beef Council Revenue (\$1 per head) from Sales of \$259,000 (55% of cattle)	259,000
2013 Cattle Inspected for Other Than Sales (45% of cattle)	+ 211,909
Total Cattle in 2013 that Should Have Been Inspected	= 470,909
2013 Cattle Inspected per Division Records	- 354,000
Projected Uninspected Cattle Brand Fees/Fees @ \$1 per animal	= 116,909
Projected one-time Revenue for First Animal Fee @ additional \$9 per animal, average of 77 cattle per Brand Inspection ^a	+ 13,664
Total Uninspected Brand Fees	\$130,573

Table Note:

^a Calculation: 116,909 cattle (divided by) 77 avg. cattle per inspection (multiplied by) \$9 per animal (equals) \$13,664.

The division reported it relies on a manual system to check the results of brand inspections and verify reports are accurate. This system is labor intensive and consequently the results are not available on a timely basis. Enforcement officers respond to problems identified by part-time inspectors, if called; there is no on-going process for oversight of the part-time inspectors by the enforcement officers or of the officers when they inspect brands. Consequently, the division cannot verify the accuracy of the number of cattle inspected.

Better oversight of the brand inspection process would increase accountability, transparency, and ensure owners are treated consistently. The division should enhance oversight of brand fee collections to help ensure Nevada receives the revenue established by statute.

Brand Inspection Fees Are Being Waived

The division can increase brand fee revenues by enhancing oversight of policies and procedures for waiving fees for some cattle. Better oversight of the process for waiving fees could benefit Nevada by up to \$21,000 annually.

NRS 565 gives the department authority to establish brand inspection fees and under what circumstances inspections are necessary. NRS 565.090(6) states the department may establish regulations specifying the circumstances under which a brand inspection may not be necessary. Statute notes the circumstances may include, without limitation, the routine movement of horses and bulls within and from Nevada to participate in a rodeo.

State guidelines posted on the division's website show a \$10 fee for the first animal and \$1 per animal afterwards. We found the \$10 brand inspection fee was waived about 20 percent of the time. However, there was no documentation that indicated why the fee was waived. Additionally, there are no division policies and procedures that guide brand inspectors for when waiving the fee is appropriate and how to record the waiver. Appropriately applying the brand inspection fee could benefit the state by up to \$21,000 annually.¹

Better oversight of the appropriate times for waiving brand fees would increase accountability, transparency, and ensure owners are treated consistently. The division should enhance oversight of waiving fees for brand inspections to help ensure Nevada receives the revenue owed as established in statute.

Cattle May Be Under Reported for the Livestock Tax

The division can increase livestock tax revenues by enhancing oversight of the self-reported numbers of cattle. Better oversight of the self-reported numbers could benefit Nevada by up to \$60,000 the first year and up to \$20,500 annually thereafter.

Our review shows the number of cattle self-reported for the annual livestock tax may be under reported. In 2014, the livestock tax was increased to 50 cents per head annually for beef cattle and 60 cents for dairy cattle.

NRS 575.150 gives the department authority to approve the self-reported livestock tax as well as challenge the accuracy of reported numbers. NRS 575.205 provides for penalties for not accurately reporting the livestock tax. Our projections show the department may need to exercise its authority.

¹ Twenty (20) percent of total inspections (11,512) = 2,302 inspections. Inspections multiplied by an additional \$9 (\$1 previously collected for each animal for brand fees) = \$20,722 fee revenues that were waived.

Calving Rate Projection – In 2013, the self-reported numbers in Nevada were 410,000 head of cattle. We adjusted the 2012 self-reported numbers for expected calving rates and sales; the result shows the number of cattle that should have been self-reported in 2013 was 451,000. Consequently, there may have been under reporting of 41,000 cattle. See Exhibit II.

Brand Inspection Projection – Considering the discrepancy noted in the number of brand inspections, and assuming the actual number in Nevada in 2013 may have been about 471,000 cattle, the under reporting may have been about 14,000.

Our projections using the calving rate and brand inspection information shows a cattle population between almost 424,000 and 451,000. The U.S. Department of Agriculture’s estimate of Nevada’s cattle and calves population in 2013 was 460,000.² Exhibit II is a summary of the projected cattle population that should have been self-reported for the purpose of paying the livestock tax.

Exhibit II

Livestock Tax Under Reported

Calving Rate Projection			Brand Inspection Projection	
2012 Self-Reported Cattle		400,000	2013 Cattle Inspected per Beef Council Revenue (\$1 per head) from Sales of \$259,000	259,000
2012 Calving Rate Division estimate: 85% of cattle have calves: 75% sold the 1 st yr.; 15% sold the 2 nd yr.; 10% retained for herd replacement	85%		2013 Cattle that Should Have Been Inspected for Other Than Sales (based on DIA testing results of 45%)	211,909
2012 Calves	340,000		2013 Projected Total Cattle	470,909
2012 2nd Year Calves that would be sold during 2013	15%	51,000	(Minus) 10% out-of-state Cattle ^a	(47,100)
2013 Projected Cattle		451,000	2013 Projected Cattle	423,800
2013 Reported Cattle		410,000	2013 Reported Cattle	410,000
2013 Projected Cattle Under Reported		<u>41,000</u>	2013 Projected Cattle Under Reported	<u>13,809</u>
Livestock Tax @ \$.50 per Head ^b		\$20,500	Livestock Tax @ \$.50 per Head ^b	\$6,905
Penalties & Interest ^c		\$38,950	Penalties & Interest ^c	\$13,120
Total Revenue from Under Reporting		<u>\$59,450</u>	Total Revenue from Under Reporting	<u>\$20,025</u>

Table Notes:

^a Revenues from pro-rating the livestock tax for out-of-state cattle grazing in Nevada are not included.

^b Potential revenues calculated at the 2014 tax rate. Revenue for uncollected livestock tax calculated at the lower rate for beef cattle because division records did not distinguish between beef and dairy cattle.

^c Penalties and interest calculated per NRS 575.205.

² The U.S. Department of Agriculture estimates cattle populations in each state using a variety of sources, including tax returns, sales, and other information available to the public and federal government.

Reconciling Livestock Tax and Brand Fee Numbers Will Help the Division

The division reported they have not audited self-reported numbers of cattle for the purpose of paying the annual livestock tax and does not, as a matter of practice, challenge the self-reported number of cattle from owners. Our review found the division does not track or reconcile self-reported numbers in a way which would allow the division to know if a challenge is warranted. For example, the division does not reconcile livestock tax numbers with brand inspection numbers on a systematic basis to determine if self-reported numbers are reasonable. Consequently, the division cannot verify the accuracy of the self-reported numbers of cattle.

Better oversight of the self-reported livestock tax numbers and reconciling information from owners and inspectors would increase accountability, transparency, and ensure owners are treated consistently. The division should enhance oversight of livestock tax self-reporting and reconcile with brand inspection numbers to help ensure Nevada collects the revenue established by statute.

Recommendations:

1. Enhance oversight of brand fee collections, procedures for waiving fees, and livestock tax self-reporting to help Nevada receive the revenue established by statute.
2. Reconcile self-reported livestock tax numbers and brand inspection numbers to ensure Nevada receives the revenue established by statute.

Exhibit III

Estimated Benefits from Enhanced Oversight

Recommendation	One-time Benefit	Annual Benefit
Brand Inspection Fees	\$130,573	\$116,909
Waived Fees	\$20,722	\$20,722
Livestock Tax	\$20,025 – \$59,450	\$6,905 – \$20,500
Total	\$171,320 – \$210,745	\$144,536 – \$158,131

Can the Division Enhance Management and Enforcement Staff Accountability?

The division can enhance management and enforcement staff accountability by transitioning to contract brand inspectors; establishing and monitoring performance measures and policies and procedures; and using authorities in NRS. Enhanced accountability from the enforcement staff could benefit the state by over \$100,000 annually and help ensure public health issues are fully enforced.

Plans for Upgrading Operations Should Improve Enforcement Professionalism

The department plans to upgrade the division's enforcement staff operations to enhance professionalism, better manage revenue collections, and assure public health issues are monitored. Upgraded operations include a web-based program to record brand inspection activities in real time. Currently, division managers may not be aware of brand inspection activities for as long as two weeks after the fact, according to the department. This lag in reporting makes it difficult for enforcement staff to conduct responsive oversight of inspections or issues identified when documentation is reviewed by fiscal and program staff.

The department plans improvements to help professionalize enforcement staff:

- Implement an automated brand inspection process to record and document inspection information, including payments.
 - An automated records and documentation system will help the division manage resources and produce data-driven reports to inform decisions. The division characterizes the new process as using iPads in the field to record and transmit brand inspection data as the inspections occur.
 - We found the current manual system for recording and documenting brand inspections and other activities to be inconsistent and unclear. For example, there was no standardized format for entries. Some inspectors combined check and cash payments together from a single owner for multiple inspections over several days. The amounts paid separately by check and cash were not recorded. Additionally, we found no documentation reconciling inspections billed to owners with proof of payments.

- Implement a centralized dispatch system to more efficiently assign staff for inspections and enforcement activities.
 - A centralized dispatch system will help the division better manage resources with a more complete picture of planned and on-going operations and available staff. It will also provide an enhanced level of transparency that has not been previously available.
 - We found no evidence of management efforts to contain costs by scheduling inspectors to work efficiently. For example, several inspectors self-scheduled their work day to exceed an 8-hour day and subsequently earn overtime pay. Individual inspectors routinely worked in excess of 8 hours at livestock sales markets, which have scheduled days and hours of operation.

- Use state vehicles (retired NHP patrol vehicles) to lower travel expenses for part-time inspection staff.
 - In fiscal year 2014, projected travel expenses account for about six percent of division expenditures. The department expects to achieve savings from lower travel expenses by identifying high use inspectors and assigning them a state car.
 - We found eight part-time brand inspectors (or 13 percent of all inspectors used in 2013) accounted for approximately 25 percent of the division's in-state travel expenses in 2013.

- Initiate annual training for enforcement and inspection staff.
 - Recurring training will help ensure staff treats Nevadans consistently and appropriately, while more effectively monitoring, managing, and enforcing state agriculture and public health laws.
 - We found a lack of consistency in recording and documenting brand inspections. For example, individual inspectors varied on how Nevadans were billed. Some owners were billed once for multiple inspections over several days; others were billed for an inspection each trip; others were not billed at all.

The upgraded operations should allow the enforcement staff to more effectively address shortcomings in the inspection process, such as eliminating potential conflicts of interest. For example, we found that ten percent of the time, part-time staff were inspecting brands and collecting fees from owners with the same last name as the inspector.

Unique Enforcement Staffing Must Work for Nevada in the Near Term

There may be as many as 80 staff enforcing state laws related to animal industries, including inspecting and collecting brand fees, assuring proper health certificates for animals entering and leaving the state, and other related activities. Three enforcement officers are assigned in Elko and one is assigned in Sparks to cover the division's state-wide responsibilities.

Up to 76 part-time inspectors are located throughout Nevada.³ They respond to calls from local ranchers, farmers, and others who need a brand inspection because of impending sales or moving cattle for grazing and other reasons. The part-time inspectors are compensated on an hourly basis as well as paid travel expenses and mileage when they drive their personal vehicle. In fiscal year 2013, 64 of the 76 part-time inspectors were compensated for work; the highest compensated part-time inspector received just over \$25,000; the lowest compensated part-time inspector received just under \$25. Almost two-thirds of brand revenues collected by the division were attributed to just over 15 percent of the part-time inspectors.

Other western states that have a brand inspection requirement also use a combination of full-time and part-time staff, although Nevada's staffing is unique. Nevada has the highest number of part-time inspectors involved in the process, six times more than the next western state using part-time inspectors. See Exhibit IV for a comparison of enforcement staff in other western states.

Exhibit IV

Comparison of Enforcement Staff

State	Full-time Officers	Part-time Inspectors	Part-time FTE^a Equivalent	Total FTE^a Enforcement Staff
Arizona	15	4	2	17
Idaho	30	12	6	36
New Mexico	50	0	0	50
Nevada	4	76	4	8

Table Note:

^a Full-time employee (FTE) position.

The department represents it does not expect to receive additional resources through higher fees to expand the number of full-time officers to replace part-time inspectors. Currently, the 76 part-time inspector positions amount to about four full-time equivalent positions. The division represents four additional full-time officers, in lieu of part-time inspectors, would be insufficient to cover brand inspection requirements during peak times of the year. However, division data shows part-time inspectors could be more efficiently managed.

³ The division is authorized 101 brand inspector positions. There are currently 25 vacant positions. Almost 40 percent of positions are authorized compensation up to a full-time equivalent employee. In 2013, the division only used 64 of the 76 part-time brand inspectors.

Contracting for Inspectors Could Reduce Spending

The division should consider contracting for part-time inspectors to reduce spending. Contracting part-time inspectors could benefit the state by over \$100,000 annually.

The division spent just under \$300,000 on pay and benefits for part-time inspectors in 2013. One of the division's rationales for a large, part-time inspection staff is to control costs by having inspectors located state-wide. The new centralized dispatch system should allow the division to better monitor how and when part-time inspectors are used to help manage costs incurred when they work beyond their part-time number of hours. Division records show four part-time inspectors accounted for over 2.5 of the 4.0 full-time equivalent positions funded in 2013.

We found the division incurred costs for part-time inspectors as a result of working more than the standard daily work hours. These costs include overtime and holiday pay. Exhibit V summarizes pay and benefits for part-time inspectors in 2013.

Exhibit V

2013 Pay and Benefits for Part-Time Inspectors

Description	Amount	Description	Amount
Salaries	235,638.04	Overtime Pay	4,534.21
Workers Compensation	3,735.93	Holiday Pay	1,796.99
Retirement	3,223.96	Medicare	3,138.28
Group Insurance	1,467.28	Social Security	5,890.90
Sick Leave	8,547.64	Terminal Sick Leave	6,260.10
Annual Leave	7,273.34	Terminal Annual Leave	3,857.34
Retired Employees Group Insurance	5,394.77	Labor Load Reserve-Fringe	41.15
Unemployment Compensation	451.94		
Total			\$291,251.87

Division records show two of its part-time inspectors were also full-time state employees with another state agency. The division reports these inspectors were automatically paid at the overtime rate or with accrued compensatory time when they inspected brands.

In addition to salary and benefits, the division paid over \$124,000 for part-time inspectors using personal vehicles in 2013. Our review shows four inspectors received an average of almost \$20,000 each, with the remaining inspectors averaging almost \$800 each in vehicle reimbursements.

Moreover, as state employees, the part-time inspectors are paid the same hourly rate for travel time as for work time. Almost every inspection requires driving to an inspection location. Our review shows 40 percent of the total inspection time is for travel, on average. SAM 0325, paragraph 6 distinguishes between travel time and work time for contract employees and allows for paying the same rate if the state agency and contractor agree on the scope of work to be accomplished while traveling. Absent that agreement, SAM authorizes paying a lower rate when a contractor is in travel status. When inspectors are driving and receiving reimbursement for using their personal vehicles, there is no work that can be accomplished. Unlike full-time enforcement officers, part-time inspectors have no authority to enforce laws from the roadway. In effect, there is no patrol function for part-time inspectors.

The division should consider transitioning from using part-time state employees to contract employees to reduce spending and better manage the inspection process. We estimate the division could save over \$100,000 annually by transitioning to contract brand inspectors. Exhibit VI summarizes our estimate.

Exhibit VI

Estimate of Reduced Spending with Contract Brand Inspectors^a

Description	Amount	Contract Adjustment
Salaries (2013)	235,638.04	DIA testing shows 40 percent of inspection time is for travel: $235,638 - 94,255 = 141,383$ Contract travel time paid at 1/2 rate: $94,255 / 2 = 47,128$ Estimated contract salaries: $141,383 + 47,128 = 188,510$
Other Benefits	55,613.83	Other Benefit Payments Not Incurred
Total	\$291,251.87	\$188,510.00
Estimated Reduced Spending		\$102,741.44

Table Note:

^a This estimate assumes contract inspectors would still be reimbursed at the prevailing rate for the use of their personal vehicles.

Better managing part-time inspectors will reduce spending and help ensure accountability for fee-generated funds. Enhanced accountability of expenditures for part-time brand inspectors would support the division rationale for a large, part-time staff. Increased efficiencies resulting from enhanced accountability of part-time inspectors could allow the division to consider lowering fees in the brand fee structure, which could benefit all Nevada cattle owners.

Performance Measures and Better Management Oversight Will Improve Enforcement Staff Accountability

The division should establish and monitor performance measures to enhance enforcement staff accountability. Performance measures and administrative policies and procedures will help managers assess how well staff is performing and introduce accountability into the enforcement and personnel processes.

Our review found there were no written performance measures to help guide enforcement staff operations. Nevada's Priorities and Performance Based Budgeting process calls for performance measures to help track and monitor how effectively state agencies are accomplishing their mission and spending budgeted funds. Other western states we surveyed have performance measures for enforcement staff. For example, New Mexico measures the efficiency of staff, in part, by how they meet timelines and use resources.

Additionally, we found administrative policies and procedures were not in place for performing, tracking, and monitoring human resources requirements; vehicle use; and some enforcement operations. Moreover, there were no division records or only incomplete records available to review:

- NRS 284.337 requires supervisors to report on the performance of employees annually as set out in NRS 284.340. The division could not produce copies of employee evaluations for enforcement staff.
- SAM addresses accounting for state vehicles:
 - SAM 1314 requires state agencies to maintain vehicles according to manufactures recommended maintenance schedule;
 - SAM 1316 requires maintenance be recorded; and
 - SAM 1322 requires state agencies assign vehicles to utilization groups based on use and mileage.

The division could not produce records showing vehicle maintenance, assignment, use, or mileage for its fleet of enforcement vehicles.⁴

- NRS 565 authorizes brand inspections and the division adopted certain tactics, such as roadside checkpoints, to help enforce the law. Division records show three checkpoints conducted in fiscal year 2013 (April 18, April 30, and May 14), one of which was a joint operation in Idaho. Division records show three checkpoints were conducted in fiscal year 2014 (October 17, 24, and 31). The fiscal year 2013 checkpoints resulted

⁴ Three of the four division enforcement staff vehicles were purchased with State General Funds and the other was purchased with federal funds; however, all are accountable to State Administrative Manual standards per the Department of Administration, Fleet Services Division.

in 15 total warnings for violating Nevada law. There are no records of the results for checkpoints occurring in 2014.

Establishing and monitoring performance measures, administrative policies and procedures, and maintaining required records will increase productivity, transparency, and ensure managers follow state guidelines. The division should establish and monitor performance measures and administrative policies and procedures to enhance enforcement staff accountability.

Using NRS Authorities May Improve Enforcement Accountability

The division should establish policies and procedures that use authorities established in NRS to enhance enforcement staff accountability. Using NRS authorities will help division managers and enforcement staff protect the public and provide consequences for those who violate state law.

Our review found the division does not, in general, collect revenue from fines for violating state laws relating to brand inspections, incomplete or missing health certificates, or other violations.

Written Policies and Procedures are Necessary to Guide Enforcement Staff

We found there were no written policies and procedures to guide enforcement officers and part-time inspectors about enforcing statutes that establish fees, including the division's oversight function to monitor the various fee processes. For example, the division reports it is sometimes difficult for inspectors to see all cattle at once because the herd is dispersed in a field or large area. However, NRS 565.110 requires a person intending to move, drive, ship, or transport any animals out of any brand inspection district to assemble and hold them at some convenient and adequate place for brand inspection until the animals have been inspected and released. It appears the division has not used NRS authorities to assure conditions allow for accurate counts and fees in all cases.

NRS 565.170 allows the division to assess an administrative fine of up to \$1,000 for violating laws related to brand inspections. We found no documentation or evidence an administrative fine in any amount had ever been levied for violating brand inspection laws. The division does not have policies and procedures to guide enforcement officers when fines may be appropriate and consequently has not used a readily available statutory enforcement tool to ensure compliance with state law and to protect the public.

The division represents it prefers to educate violators to rectify non-compliant behavior rather than impose sanctions against producers, transporters, and others working in animal industries under its purview. The division's online information about the enforcement process lists one of its goals is to obtain a

higher degree of compliance through educating rather than litigating whenever possible. However, during fiscal year 2013, the division issued three citations and 28 warnings, evidencing education alone may not obtain compliance with state laws and consequences may be necessary.

We surveyed other states and found it may be necessary to use statutory authorities to assure compliance and protect public health. We noted, on average, other states enforce laws through warnings at the same rate as Nevada; however, other states issue citations with fines at a rate three times that of Nevada. See Exhibit VII for a comparison of Nevada’s enforcement actions with other states.

Exhibit VII

Annual Results per Enforcement Officer Position

State	Officers	Warnings	Citations
Arizona	15	7	6
Idaho	30	10	2
New Mexico	50	3	2
Average	32	7	3
Nevada	4	7	< 1

Establishing policies and procedures for enforcing state laws would help guide enforcement staff decisions, provide incentives for complying with brand inspection requirements, and help assure Nevadans remain safe from potential public health issues. The division should establish policies and procedures that address using NRS authorities to enhance enforcement staff accountability.

Recommendations:

3. Consider transitioning to contract brand inspectors.
4. Establish and monitor performance measures and administrative policies and procedures to enhance enforcement staff accountability.
5. Establish policies and procedures that address using NRS authorities to enhance enforcement staff accountability.

Exhibit VIII

Estimated Benefits

Recommendation	Annual Benefit
Transition to Contract Brand Inspectors	\$102,741.44

Appendix A

Department of Agriculture Response and Implementation Plan

BRIAN SANDOVAL
Governor

STATE OF NEVADA

JAMES R. BARBEE
Director

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October 16, 2014

Steve Weinberger, Administrator
Nevada Department of Administration
Division of Internal Audits
209 East Musser Street, # 302
Carson City, NV 89701

Dear Steve Weinberger:

The Nevada Department of Agriculture (NDA) has reviewed the draft audit report received October 2, 2014 related to the Animal Industry Division's efforts to increase brand inspection revenue collections and the management of the brand inspection program. NDA appreciates the review and research performed by the audit staff and the recommendations to improve our processes. We also appreciate the opportunity to review and provide comment on the draft audit report. Pursuant to NRS 353A, the following contains the Department's response to the findings and recommendations in the report.

Recommendation #1: Enhance oversight of the brand fee collections, procedures for waiving fees, and livestock tax self-reporting to help Nevada receive the revenue established by statute.

Response: NDA agrees with this recommendation. The Animal Industry Division is currently completing an online brand inspection system designed to enhance the division's oversight of the brand fee collection process, including the waiving of fees. This system automates the livestock brand inspection process so that all calculations are automated, decreasing mathematical errors, and improving the accuracy and timeliness of the information collected from the brand inspection form. The brand inspection information will be recorded in real-time, and administrative staff will no longer have to manually verify and record brand inspection information. This will also eliminate the lag between the actual brand inspection in the field, the receipt of brand inspection information by administrative staff, and the recording, collection and deposit of fees. This system will allow for credit card payments, and will not allow for certificates to be issued without payments. We will also phase out cash payments as livestock owners become familiar with the new system. This system will not allow waivers to be issued without a reason code or a reason being entered, making this process more transparent. It is expected that this system will be fully implemented by March 31, 2015. With the controls built into this system, and the subsequent accuracy of the information collected, we believe this will enhance oversight of this program and will create baseline information allowing NDA to improve revenue collections.

Recommendation #2: Reconcile self-reported livestock tax numbers and brand inspection numbers to ensure Nevada receives the revenue established by statute.

Response: NDA agrees with this recommendation. Timely and accurate information collected from the new online system will allow NDA to develop reliable reports that can be used to reconcile self-reported livestock tax numbers.

Page 2 of 2

This system will also free up staff time to develop and create timely comparative livestock head tax reports by fiscal year to identify variances and allow for meaningful follow-up within a reasonable time frame.

Recommendation #3: Consider transitioning to contract brand inspectors.

Response: NDA agrees with this recommendation. As NDA continues to implement other cost cutting measures and process improvements, the costs and the benefits of contracting with brand inspectors will be further explored.

Recommendation #4: Establish and monitor performance measures and administrative policies and procedures to enhance enforcement staff accountability.

Response: NDA agrees with this recommendation. As part of the 2015-2017 Budget, three performance measures were developed for this program and are required to be tracked annually. As required by statute and NDA policy, the Division will begin to conduct performance evaluations. NDA is in the process of developing a Fleet Management Policy and Procedure for Board of Agriculture approval in March 2015. The Division is in the process of developing policies and procedures for the brand inspection program and are looking to have these completed by the end of this fiscal year.

Recommendation #5: Establish policies and procedures that address using NRS authorities to enhance enforcement staff accountability.

Response: NDA agrees with this recommendation. As part of the current effort to develop policies and procedures for the brand inspection program, procedures will be incorporated to guide inspectors and enforcement officers in effectively using existing laws to ensure compliance with brand inspection requirements.

Again, we appreciate the contribution from your staff and the opportunity to improve our Brand Inspection Program.

Respectfully,

A handwritten signature in blue ink, appearing to read 'J. Barbee', with a horizontal line extending to the right.

Jim R. Barbee
Director

Appendix B

Timetable for Implementing Audit Recommendations

In consultation with the department, the Division of Internal Audits categorized the three recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department's target completion dates are incorporated from Appendix A.

Category 1: Recommendation with an anticipated implementation period of less than six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Enhance oversight of the brand fee collections, procedures for waiving fees, and livestock tax self-reporting to help Nevada receive the revenue established by statute. (page 8)	April 2015

Category 2: Recommendations with an anticipated implementation period exceeding six months.

<u>Recommendations</u>	<u>Time Frame</u>
2. Reconcile self-reported livestock tax numbers and brand inspection numbers to ensure Nevada receives the revenue established by statute. (page 8)	July 2015
3. Consider transitioning to contract brand inspectors. (page 16)	July 2015
4. Establish and monitor performance measures and administrative policies and procedures to enhance enforcement staff accountability. (page 16)	July 2015

5. Establish policies and procedures that address using NRS authorities to enhance enforcement staff accountability.
(page 16)

July 2016

The Division of Internal Audits shall evaluate the action taken by the department concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the committee and the department.