



STATE OF NORTH CAROLINA

PERFORMANCE AUDIT

**DEPARTMENT OF AGRICULTURE AND
CONSUMER SERVICES**

KEY AGENCY INDICATORS

DECEMBER 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PERFORMANCE AUDIT

**DEPARTMENT OF AGRICULTURE AND
CONSUMER SERVICES**

KEY AGENCY INDICATORS

DECEMBER 2010



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

December 22, 2010

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
The Honorable Steve Troxler, Commissioner, Department of Agriculture & Consumer Services

Ladies and Gentlemen:

We are pleased to submit this performance audit titled "*Department of Agriculture and Consumer Services – Key Agency Indicators*". The audit objectives were to determine the Department of Agriculture & Consumer Services (Department) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate and supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently. Steve Troxler reviewed a draft copy of this report. His written comments are included in the appendix.

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

We wish to express our appreciation to the staff of the Department of Agriculture & Consumer Services for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
SUMMARY	1
INTRODUCTION	
BACKGROUND.....	3
OBJECTIVES, SCOPE, AND METHODOLOGY	4
FINDINGS AND RECOMMENDATIONS.....	6
APPENDIX	
DEPARTMENT RESPONSE	13
ORDERING INFORMATION	15

SUMMARY

PURPOSE

This audit evaluated the Department of Agriculture & Consumer Services' (Department) key agency indicators¹ for state fiscal years 2007 through 2010 to ensure that accurate and meaningful information is available to evaluate the Department's performance and make budgeting decisions. We made recommendations so the Governor, Legislature, Office of State Budget and Management, and Department management can take appropriate corrective action.

RESULTS

The Department's key agency indicators are not meaningful measures of its performance. Specifically, the key agency indicators are not clearly linked to the Department's goals and do not provide a method for decision-makers such as the Governor, Legislature, Office of State Budget and Management, and Department management to measure the Department's progress toward achieving its goals. Additionally, the key agency indicators are not used for decision making by legislative personnel which further suggests that the indicators do not measure departmental goal-achievement. Also, the Department did not develop a written strategic plan to clearly demonstrate how the Department's key indicators measure progress toward goal-achievement. As a result, decision-makers may lack information necessary for determining whether the Department is achieving the goals for which state resources were allocated to it.

The Department has not established policies and procedures necessary to ensure that key agency indicator data is accurate, complete, and consistent. Specifically, the Department does not have policies and procedures in place to ensure that source data for the key indicators is collected in a consistent manner, errors are not introduced when performance data is processed, and key agency indicators are reviewed for accuracy and consistency before they are reported. The lack of proper procedures could result in incomplete, inaccurate, and invalid performance data.

RECOMMENDATIONS

Department management should continue to develop a written strategic plan that clearly explains how the department's mission, goals, strategies are linked to and measured by the key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Department's performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement.

¹ Key agency indicators are performance measures that identify and measure the key results necessary for an agency to achieve its goals. The Office of State Budget and Management states that key agency indicators should "provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

PERFORMANCE AUDIT

The Department should develop written policies and procedures for performance data collection and processing. The Department should ensure that personnel are properly trained in the data collection and processing procedures. The Department should require management to review the key agency indicators and certify that procedures were followed and that the key agency indicators are complete, accurate, and valid.

AGENCY'S RESPONSE

The Agency's response is included in the appendix.

INTRODUCTION

BACKGROUND

On January 12, 2009, the Governor issued Executive Order No. 3, “On-Site and State-Stat Performance Management and Accountability,” to improve program and management performance at state agencies and to maximize efficiency and effectiveness when spending taxpayer dollars. Executive Order No. 3 requires each Cabinet-level department² to develop a strategic plan that clearly and concisely states the (1) mission of the department, (2) goals of the department, (3) strategies for achieving department goals, and (4) measures that demonstrate how well the goals are being achieved.

Although Council of State members are not bound by Executive Order No. 3, the Office of State Budget and Management (OSBM) also requires all state agencies to perform strategic planning and identify the agency’s mission, goals, and performance measures as part of the State’s budget process. OSBM requires this information from state agencies to ensure that the State’s budget process encourages efficient and effective government and emphasizes performance and accountability. OSBM also wants to ensure that the State’s budget process provides “decision makers with detailed information in order to assess the effectiveness of state programs and to inform the public about state government work and subsequent results.”

In compliance with the State’s budget process, the Department of Agriculture and Consumer Services (Department) submitted its mission, goals, and performance measures to OSBM.

The Department’s mission is to improve the state of agriculture in North Carolina by providing services to farmers and agribusinesses, and to serve the citizens of North Carolina by providing services and enforcing laws to protect consumers.

The Department also established goals or steps to achieve its mission. The Department’s goals are to:

- Educate North Carolina's citizens on agriculture's many contributions to the State's economy, history, and future to build awareness of available services and to expand market opportunities through agricultural fairs, news releases, promotional campaigns, public exhibitions, and publication of agricultural statistics.
- Protect citizens from consuming unsafe food products and from experiencing economic loss due to unlawful business practices through programs of inspections and enforcement of laws and regulations to build consumer confidence with agricultural and consumer products.
- Prevent the spread and the effects of agricultural-related diseases and pests, implement eradication steps, and assist farmers in preparing for and responding to catastrophic

² Executive Order No. 3 encouraged and invited the Board of Governors of the University of North Carolina System, the State Board of Community Colleges, State Board of Education, the Administrative Office of the Courts, and each of the heads of the Council of State agencies to participate in the Executive Order.

PERFORMANCE AUDIT

events through education, site inspections, testing, and emergency planning to maintain a safe environment.

- Work to continuously improve the quality and cost-effectiveness of departmental programs and related services provided to North Carolina citizens through performance management and constant monitoring to efficiently manage public resources and maintain high customer satisfaction.

To demonstrate progress in achieving its goals, the Department developed the following three “key agency indicators”:³

1. Net value added to the NC economy by the agricultural sector;
2. Land in farms (acres); and
3. Number of farms.

To achieve its goals and serve the citizens of North Carolina, the Department received about \$63 million in appropriations for fiscal year 2010.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine the Department of Agriculture & Consumer Services (Department) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate and supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently.

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

The audit scope included key agency indicators reported for state fiscal years 2007 through 2010. We conducted the fieldwork from July 2010 to August 2010.

To determine if the Department established key agency indicators that have a clear relationship to agency goals and accurately reflect the performance being measured, we compared agency indicators to the definition of “outcome-based” measures.⁴ We compared agency indicators to strategic plans. We also interviewed agency management, OSBM personnel, General Assembly Fiscal Research Division personnel, and legislative oversight committee members.

To determine if the Department reported accurate, supported performance information to the OSBM, we reviewed key agency indicator calculations and supporting documentation.

³ OSBM budget instructions describe key agency indicators as follows: “Developed in conjunction with an agency’s mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years.”

⁴ The National State Auditors Association states, “Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved.”

PERFORMANCE AUDIT

To determine if the Department established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently, we compared agency performance data collection, processing, and reporting practices to identified data quality assurance best practices.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

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

We conducted this audit under the authority vested in the State Auditor of North Carolina by *North Carolina General Statute 147.64*.

FINDINGS AND RECOMMENDATIONS

1. NO CLEAR RELATIONSHIP BETWEEN KEY INDICATORS AND AGENCY GOALS

The Department of Agriculture & Consumer Services' (Department) key agency indicators are not meaningful measures of the Department's performance. Specifically, the key agency indicators are not clearly linked to the Department's goals and do not provide a method for interested parties to measure the Department's progress in achieving its goals. Additionally, the key agency indicators are not used for decision making by legislative personnel which further suggests that the indicators do not measure departmental goal-achievement. The lack of a clear relationship between the key indicators and agency goals is explained in part by the Department's lack of a written strategic plan.

Key Agency Indicators Not Clearly Linked To Goals

Performance measures can help direct and motivate employee behavior toward the achievement of agency goals if the measures are clearly linked to the agency's goals.

However, none of the Department's three key agency indicators are clearly linked to its stated goals. The indicators may provide some information on major departmental initiatives such as "Farmland Preservation", but none of the indicators are clearly linked to the Department's goal of educating citizens about agriculture's contributions to the economy, building awareness of available services, or expanding market opportunities. None of the indicators are clearly linked to the Department's goal of protecting citizens from unsafe food or economic loss. None of the indicators are clearly linked to the Department's goal of preventing the spread and effects of agricultural-related diseases and pests. Furthermore, none of the indicators are clearly linked to the Department's goal of improving the quality and cost-effectiveness of departmental programs and services.

The Government Accountability Office (GAO) recommends that agencies link performance measures to agency goals. The GAO states:⁵

"Performance goals and measures should align with an agency's goals and mission. A cascading or hierarchal linkage moving from top management down to the operational level is important in setting goals agency wide, and the linkage from the operational level to the agency level provides managers and staff throughout an agency with a road map that (1) shows how their day-to-day activities contribute to attaining agency wide goals and mission and (2) helps define strategies for achieving strategic and annual performance goals."

The GAO notes that failure to link performance measures to goals can create behaviors and incentives that do not support organizational goals.

⁵Government Accountability Office. Report no. [GAO-03-0143](#). November 2002

FINDINGS AND RECOMMENDATIONS

Key Agency Indicators Do Not Measure Goal Achievement

The National State Auditors Association states, "Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved." ⁶

However, none of the Department's three key agency indicators are outcome measures that clearly measure the Department's success in achieving its stated goals. None of the indicators clearly or directly measure the Department's success in educating citizens about agriculture's contributions to the economy, building awareness of available services, or expanding market opportunities. None of the indicators clearly or directly measure the Department's success in protecting citizens from unsafe food or economic loss. None of the indicators clearly or directly measure the Department's success in preventing the spread and effects of agricultural-related diseases and pests. Additionally, none of the indicators clearly or directly measure the Department's success in improving the quality and cost-effectiveness of departmental programs and services.

The state budgeting process requires state agencies to provide outcome-based key indicators. Instructions from the Office of State Budget and Management (OSBM) state:

"Key indicators should be outcome-based and inclusive of various programs, activities, and funds in order to provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

The state budget instructions include examples of outcome-based measures such as:

- Employment rate for 13 weeks following training program;
- Annual return on short-term investments;
- Teenage birth rate;
- Percentage of psychiatric hospital patients indicating satisfaction with hospital services;
- Percentage of tested training school residents who passed the GED;
- Percentage of welfare recipients who are employed three months after receiving job training; and
- Elder abuse recidivism rate.

A lack of outcome-based performance measures can prevent decision-makers from determining whether the agency is achieving its goals and whether the agency is effectively achieving the desired social, civic, economic, or environmental impact.

⁶ NSAA. Best Practices in Performance Measurement. 2004

FINDINGS AND RECOMMENDATIONS

Key Agency Indicators Are Not Used For Decision Making

Performance measures can provide useful information for decision-makers. The National State Auditors Association states, "A good process for developing performance measures would include assessing each performance measure by asking 'Is the measure useful to others [i.e. decision-makers]?' " ⁷

The Department's key agency indicators are not used for decision making by legislative personnel which suggests that the indicators may not be useful. Personnel from the General Assembly Fiscal Research Division stated that the key agency indicators were not useful for decision making. Additionally, the Agriculture House Standing Committee chairman did not describe any instances where the Department's key agency indicators were used to make decisions.

Performance measures should be useful for decision-making. The Government Finance Officers Association (GFOA) states, "Performance measures should be monitored and used in managerial decision-making processes."⁸ Furthermore, OSBM budget instructions require agencies to develop a set of key agency indicators that "impact and link to budget decisions."

If the performance measures are not useful for decision-making, the Department may waste time and effort collecting the data and calculating the measures. Additionally, interested parties may not have the information they need to evaluate the Department's performance and make resource allocation decisions.

No Written Strategic Plan

The Department has not developed a written strategic plan to ensure that key agency indicators are clearly linked to goals, measure goal-achievement, and are useful for decision making. Although Agency management has taken on some strategic planning initiatives such as establishing a mission statement, defining goals and developing an Agency Overview, the Department lacks critical elements of a written strategic plan. In part, strategic planning includes developing strategies to achieve the agency's goals, creating an action plan, developing measurable objectives, and incorporating performance measures to "provide an important link between the goals, strategies, actions, and objectives stated in the strategic plan."⁹

Strategic planning is a best practice recommended by the GFOA and the Governor of North Carolina. The GFOA recommends that "all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals."¹⁰ Furthermore, the Governor's Executive Order No. 3 states:

⁷ NSAA. Best Practices in Performance Measurement. 2004

⁸ GFOA. Performance Management: Using Performance Measurement for Decision Making. 2002 and 2007

⁹ GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005

¹⁰ GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005

FINDINGS AND RECOMMENDATIONS

“Each department shall develop a strategic planning process and continually update a strategic plan in compliance with guidance from the Office of State Budget and Management (OSBM) and the Governor’s Policy Office. Departments shall submit their plans annually to OSBM and the Governor’s Office. The plans shall include clear, concise, and focused statements of at least the following:

- (a) The mission of the department.
- (b) The goals of the department.
- (c) The strategies for achieving department goals.
- (d) Measures that demonstrate how well the goals are being achieved.
- (e) A description of the department strategic planning process.”

The Executive Order is not binding on Council of State agencies like the Department. However, strategic planning is a best practice and the Executive Order encouraged and invited each of the heads of the Council of State agencies to participate.

Failure to perform strategic planning and develop a written strategic plan could prevent a state agency from effectively and efficiently fulfilling its mission, achieving its goals, and serving the citizens of North Carolina.

Recommendation: Department management should continue to develop a written strategic plan that clearly explains how the department’s mission, goals, strategies are linked to and measured by the key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Department’s performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement.

2. CONTROLS DO NOT ENSURE ACCURATE, COMPLETE, AND CONSISTENT DATA

The Department of Agriculture & Consumer Services’ (Department) has not established policies and procedures necessary to ensure that key agency indicator data is accurate, complete, and consistent. Specifically, the Department does not have policies and procedures in place to ensure that (1) source data for the key indicators is collected in a consistent manner, (2) errors are not introduced when performance data is processed, and (3) key agency indicators are reviewed for accuracy and consistency before they are reported.

Performance Data Collection

The Department does not have policies and procedures in place to ensure that the source data for the key agency indicators is collected in a consistent manner. Specifically, the Department does not have:

- Written procedures and methodology for collecting performance data;

FINDINGS AND RECOMMENDATIONS

- Review procedures to ensure adherence to data collection procedures; and
- Documented staff training in proper data collection procedures.

The Government Accountability Office recommends that government agencies clearly document internal controls,¹¹ review and validate the propriety and integrity of performance measures and indicators, and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions imply that an agency should have policies and procedures in place to ensure consistent performance data collection. The state budget instructions require, “An agency’s measures should be consistent over time so that the data presented are easy to compare from year to year.”

If source data is not collected in a consistent manner from period to period, the results may not be comparable and may not be legitimate.

Performance Data Processing

The Department does not have policies and procedures in place to ensure that errors are not introduced in the performance measurement process when data is entered, transcribed, or transferred during the reporting process. Specifically, the Department does not have:

- Written procedures and methodology for entering performance data;
- Written procedures for checking data for obvious inaccuracies, checking data consistency, and checking data against source documents; and
- Documented staff training in proper data entry procedures.

The Government Accountability Office recommends that government agencies clearly document policies and procedures and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions require, “Data for performance indicators should be accurate, on file, and auditable.”

Without written procedures and trained staff, reported performance measurement information may be incomplete, inaccurate, and invalid.

Performance Data Reporting

The Department does not have policies and procedures in place to ensure that performance data is reported accurately. Specifically, the Department does not:

¹¹ Government Auditing Standards state, “Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring performance.”

FINDINGS AND RECOMMENDATIONS

- Require responsible officials to certify that proper procedures were followed in collecting and calculating key agency indicators; and
- Require responsible officials to certify that data accuracy has been checked before being reported.

State budget instructions require data for performance indicators to be accurate.

Requiring responsible officials to certify that proper procedures were followed and that data accuracy was checked will help ensure that performance measurement information is complete, accurate, and valid.

Recommendation: The Department should develop written policies and procedures for performance data collection and processing. The Department should ensure that personnel are properly trained in the data collection and processing procedures. The Department should require management to review the key agency indicators and certify that procedures were followed and that the key agency indicators are complete, accurate, and valid.

[This Page Left Blank Intentionally]

APPENDIX

Auditee Response



Steven W. Troxler
Commissioner

North Carolina Department of Agriculture and Consumer Services

December 20, 2010

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

This letter is in response to your performance audit entitled "Department of Agriculture and Consumer Services Key Agency Indicators."

Item 1: No Clear Relationship Between Key Indicators and Agency Goals

State agencies are currently developing and implementing a new program inventory system that will probably reconfigure historical agency key indicators and program performance measures. The new system, coupled with likely dramatic changes in agency budgets, will require agencies to revise their strategic plans. The Department looks forward to completing its strategic plan as budget details provide the necessary guidance. The recommendations made by the Auditor's Office will be incorporated into future plans. It should be noted the Department has complied with all information requests regarding performance-based budgeting from OSBM that apply to the Department.

Item 2: Controls Do Not Ensure Accurate, Complete, and Consistent Data

The Department agrees with the recommendation that it should develop written policies and procedures for performance data collection and processing and that personnel are properly trained in data collection and processing procedures. This recommendation will be built into the Department's oversight and management of its program inventory system.

We appreciate working with your staff to complete this audit. They were professional and open to our suggestions and comments.

Sincerely,

Steven W. Troxler
Commissioner

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647