

Special Report

Arkansas Legislative Audit

Review of Farm Operations

Arkansas Department of Correction – Agriculture Division

For the Period July 1, 2014 through June 30, 2015



INTRODUCTION

This report is issued in response to a request, approved by the Executive Committee of the Legislative Joint Auditing Committee, for Arkansas Legislative Audit (ALA) to provide information about the Arkansas Department of Correction's (ADC) Agriculture Division (Division).

OBJECTIVES

The objectives of this report were to:

- Provide background information regarding the Division's operations.
- Provide Division financial statements based on the amounts recorded in the Arkansas Administrative Statewide Information System (AASIS), the State's accounting system.
- Provide information on cash crops produced by the Division, and compare to averages at the county or state level, as reported by the United States Department of Agriculture (USDA).
- Analyze the major costs to produce cash crops, and compare to the University of Arkansas's Division of Agriculture Crop Enterprise budgets.
- Estimate the current value of ADC-owned farm land, and determine potential lease revenue to the State.
- Compare the Division's operations to those of similar divisions in other states.

SCOPE AND METHODOLOGY

The information in this report is primarily for the period July 1, 2014 through June 30, 2015. It was obtained from AASIS, ADC, USDA, University of Arkansas (U of A) Cooperative Extension Service, and other states' correctional institutions. ALA staff analyzed relevant documents; reviewed Arkansas Code; and conducted interviews with ADC personnel, representatives from other states' correctional institution farm programs, and others in the agriculture industry.

The methodology used in preparing this report was developed uniquely to address our stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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BACKGROUND AND OPERATIONS

Large-scale farming operations in Arkansas’s penitentiary system began around 1902 with the purchase of approximately 10,000 acres for the Cummins farm. Since that time, farming has been expanded to include the Tucker, East Arkansas, Wrightsville, and North Central Units.

ADC's Agriculture Division (Division) is designed to be a self-supporting program and had an annual budget of \$20.3 million and operating expenses of \$16.4 million in fiscal year 2015. The Division's primary goals are to provide useful and meaningful work for inmates, cost-effectively produce sufficient food for inmate consumption, and maximize revenues from production and sales of marketable field crops and livestock. In an effort to achieve these goals, the Division produces cash crops and raises livestock on 20,439 acres throughout the State. The distribution of acreage farmed by location, as reported by ADC to the USDA Farm Service Administration for calendar year 2015, is provided in **Exhibit I**.

As of June 30, 2015, ADC had jurisdiction over 18,813 inmates¹ and, excluding those housed outside ADC facilities, was responsible for providing meals for these inmates.

Exhibit I

**Arkansas Department of Correction (ADC)
Distribution of Acreage Farmed by Unit
For Calendar Year 215**

	Acreage Farmed by Unit (County)					Acreage Totals
	Cummins (Lincoln)	Tucker (Jefferson)	Wrightsville (Pulaski)	East Arkansas (Lee)	North Central (Izard)	
Cash Crops						
Soybeans	4,676	1,567		1,793		8,036
Corn	1,968	224				2,192
Wheat	1,790	627				2,417
Rice	659	852				1,511
Totals	9,093	3,270	0	1,793	0	14,156
Livestock Feed						
Hay/Grazing	2,362	91	2,637	169	254	5,513
Sorgham		135		387		522
Corn	446					446
Wheat	371			385		756
Oats	176					176
Total	3,355	226	2,637	941	254	7,413
Other						
Inmate Gardens	555	18				573
Idle*	379	498		57		934
Total	934	516	0	57	0	1,507
Acreage Totals	13,382	4,012	2,637	2,791	254	** 23,076

*Idle land includes water impound structures, conservation reserve program, turnaround rows, and other unused lands.

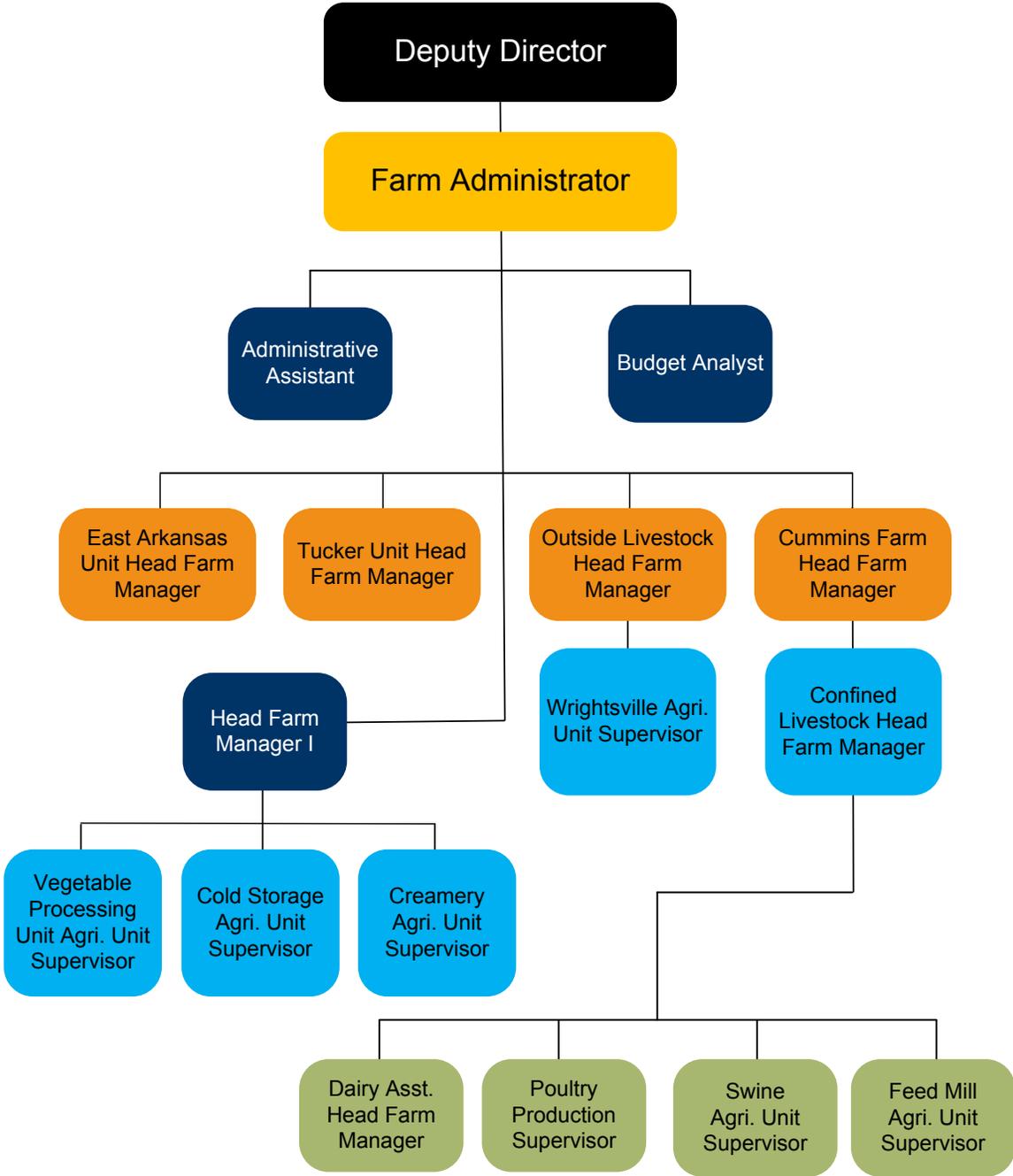
**Due to some areas being double-planted in a single calendar year, the total acreage shown here and reported to the U.S. Department of Agriculture Farm Service Administration is greater than the 20,439 in total acreage owned by ADC.

Source: United States Department of Agriculture Farm Service Administration (unaudited by Arkansas Legislative Audit)

¹This inmate population is comparable to the populations of the cities of Bryant (19,986), El Dorado (18,386), Maumelle (17,931), or Siloam Springs (16,081).

The Division is overseen by the Deputy Director, a Farm Administrator, and Managers over various functions, as shown in **Exhibit II**. The Farm Administrator is required to have a bachelor's degree in agriculture or a related field, seven years experience in agriculture management, and two years in a supervisory capacity; Managers must meet the same education requirements but may have fewer years of management and supervisory experience.

Exhibit II
Arkansas Department of Correction (ADC) – Agriculture Division
Organizational Chart



Source: Davey Farabough, ADC Farm Administrator

In fiscal year 2015, 64 positions were paid from the Farm Fund, with an average salary of \$39,318. When health insurance, retirement matching, and other benefits were included in this amount, average compensation increased to \$53,813. These positions included farm supervisors and managers, administrative support staff (e.g., purchasing, accounting, and secretarial), and security.

In addition to these positions, operations are supported by inmate labor. According to ADC, 350 inmates are allowed to work daily in the Division. Although the number of inmates and the number of hours worked by inmates are reported to the Board of Corrections, ALA staff were unable to verify this information since the Division does not have a consistent reporting mechanism in place among the various Units (**Finding 1**).

Agricultural operations also rely on equipment and facilities available. In fiscal year 2015, the Division capitalized buildings and equipment totaling \$5.1 million. Based on the amounts recorded in AASIS, **Exhibit III** illustrates the original cost and average age of capital assets used in the Division’s operations.

Exhibit III

**Arkansas Department of Correction (ADC) – Agriculture Division
Original Cost and Average Age of Capital Assets**

Category	Original Cost	Average Age (In Years)
Land and land improvements	\$ 10,138,533	N/A
Buildings and building improvements	9,764,986	27.09
Implements and other farming equipment	6,790,569	17.45
Tractors and combines	6,185,559	14.82
Assets under construction	3,873,633	N/A
Irrigation	1,255,413	11.02
Personnel vehicles	884,950	7.46
Other equipment	609,103	17.29
Trucks and trailers	509,569	19.31
Total	\$ 40,012,315	

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Farm Production

Cummins Unit

The Cummins Unit contains the largest farm and is home to the swine, dairy, feed mill, and egg production facilities, as well as a portion of the beef cattle herd. Cash crops produced include soybeans, corn, wheat, and rice.

At June 30, 2015, ADC owned 2,400 swine and 462 dairy cattle. Hogs are normally harvested at 230-250 pounds for inmate consumption, with the Division harvesting 150 per month on average. The dairy cattle are milked twice daily, with milk production ranging from 500 to 800 gallons per day. The milk is processed on-site, blended with powder to achieve 1.5% to 2% milk fat, and packaged in 8 ounce pouches for inmate consumption. The feed mill provides feed for swine, dairy and beef cattle, and poultry. It produces an average of 430 tons of feed per month, with corn as the primary ingredient in feed produced. Soybean meal, cotton seed, vitamins, and mineral packs are added to make a complete ration.

Cash crops, beef cattle, and eggs are discussed in greater detail in the Production and Sales section, beginning on **page 6** of this report.

Other Units

The Tucker and East Arkansas Units produce cash crops as well as livestock feed, similar to the Cummins Unit but on a smaller scale. The Wrightsville Unit operates the beef cattle herd not maintained at Cummins, and the North Central Unit operates the horse breeding/training facilities.

FINANCIAL STATEMENTS AND RESULTS

The Agriculture Division operates similarly to a private enterprise, except that it is governed by the rules and regulations of state government. The Division's full accrual financial statements for fiscal year 2015 are presented as **Schedules 1 and 2 on pages 23-26**. These statements are based on the information recorded in AASIS, with one exception: The amount of inventory recorded for crops in progress (CIP) was decreased and expenses were increased by \$706,317 to reflect a misstatement noted during the audit of ADC's departmental financial statements (**Finding 2**).

Operating and Non-Operating Revenues and Expenses

Based on the information recorded in AASIS and the \$706,317 adjustment noted above, the Division incurred a net loss of \$2.6 million in fiscal year 2015. Operating revenues from the sale of products produced totaled \$9.5 million, with operating expenses totaling \$16.4 million. Additional non-operating revenue included consumption certification income² of \$4.6 million and transfers in from the Inmate Care and Custody fund of \$1.25 million. The complete income statement is shown in **Schedule 1 on pages 23-24**. The major factors that contributed to this loss were the relationship between the value of products produced on the farm for inmate consumption and the amount reimbursed, as well as the non-operating expenses for the transfer out of capital assets to other ADC funds. The transfer out of capital assets from the Division was a one-time entry in AASIS made by the Department of Finance and Administration (DFA) to correct recording errors in prior periods. In total, this entry caused no net effect for ADC; however, there was a loss of assets totaling \$1.4 million to the Farm Fund. When these factors are taken into consideration, as shown in **Exhibit IV**, it is estimated that in fiscal year 2015, the Division could have generated a net income of \$1.8 million.

Exhibit IV

Arkansas Department of Correction (ADC) – Agriculture Division Income Statement Summary For Fiscal Year 2015

Income Statement Entry	Amount
Change in net position	\$ (2,598,211)
Transfer out of capital assets to other ADC funds	1,443,307
Farm commodities consumed by inmates	8,795,399
DFA-reimbursed consumption costs	(4,600,000)
ADC-reimbursed consumption costs	(1,250,000)
Adjusted Net Income	\$ 1,790,495

DFA = Department of Finance and Administration

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

²Ark. Code Ann. § 19-5-501(b)(1)(B) authorizes a reduction in ADC's budget revolving loan of the previous fiscal year for the value of products produced or processed on the farm and consumed by inmates. Determination of this income is certified by the Legislative Auditor to the Chief Fiscal Officer of the State.

Assets and Liabilities

Division assets and liabilities totaled \$37 million and \$9.6 million, respectively, in fiscal year 2015. Assets are primarily comprised of (a) land, equipment, and other capital assets and (b) inventories. The major liabilities are loans payable of \$5.6 million to the Budget Stabilization Trust Fund for inmate consumption and \$3.8 million to the Prison Construction Trust Fund for constructing and equipping the egg production facility. The complete balance sheet is provided in **Schedule 2 on pages 25-26**.

PRODUCTION AND SALES

Two of the Division’s objectives are to (a) maximize revenues through the production and sales of marketable field crops and livestock and (b) cost-effectively produce sufficient food for inmate consumption. In calendar year 2015, the Division grew soybeans, corn, wheat, and rice as marketable commodities. Sorghum, corn, wheat, and oats were produced as feed for livestock, with the intent to reduce expenses associated with the purchase of feed. Beef cattle were raised for sale, and proceeds were used to purchase ground beef for inmate consumption. Egg production began in fiscal year 2015 with the dual purpose of producing enough eggs to sustain all Units and selling any excess to generate revenue. Inmates consume eggs, vegetables, pork, milk, and other beverages produced by the Division as well as ground beef purchased by the Division.

Cash Crops

In fiscal year 2015, total sales of the Division's field crops totaled \$7.2 million, as shown in **Exhibit V**.

Exhibit V

**Arkansas Department of Correction (ADC) – Agriculture Division
Total Sales of Field Crops
For Fiscal Year 2015**

Unit	Field Crop*					Totals
	Soybeans	Rice	Corn	Wheat	Sorghum	
Cummins	\$ 2,550,217	\$ 903,104	\$ 1,123,755	\$ 366,797		\$ 4,943,873
Tucker	654,235	594,477	162,097	283,313		1,694,122
East Arkansas	335,615			141,577	\$ 53,187	530,379
Totals	\$ 3,540,067	\$ 1,497,581	\$ 1,285,852	\$ 791,687	\$ 53,187	\$ 7,168,374

*It should be noted that some field crops produced were used as livestock feed rather than sold.

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

ALA staff evaluated the Division’s production of field crops for soybeans, rice, corn, wheat, and sorghum by compiling consignment sheets and weight tickets³ for calendar year 2015 and verifying the results with Division management. These results were then compared to the estimated yields per acre at the county and/or state level, based on surveys conducted by the USDA National Agriculture Statistics Service (USDA-NASS). **Exhibit VI on page 7** compares the crop yield averages to the USDA-NASS averages.

³Consignment sheets are used to document any movement of any farm products (i.e., animals, crops, etc.). Weight tickets are used to document weight of farm products before and after movement from one location to another.

Exhibit VI

**Arkansas Department of Correction (ADC) – Agriculture Division
Crop Yield Averages Compared to USDA-NASS Averages
For Calendar Year 2015**

Unit (County) and Crops	USDA-NASS Estimated Yield	ADC Yield	Difference	Difference from Estimate
Cummins (Lincoln)				
Corn	bu 465,452	432,818	(32,634)	-7.01%
Soybeans	bu 272,641	164,236	(108,405)	-39.76%
Rice	lbs 4,991,506	5,200,400	208,894	4.18%
Wheat	bu 100,232	62,369	(37,863)	-37.78%
Tucker (Jefferson)				
Corn	bu 44,699	37,723	(6,976)	-15.61%
Soybeans	bu 96,381	58,806	(37,575)	-38.99%
Rice	lbs 6,333,778	6,856,674	522,896	8.26%
Wheat	bu 35,115	25,603	(9,512)	-27.09%
Sorghum	bu 13,230	11,181	(2,049)	-15.49%
East Arkansas (Lee)				
Soybeans	bu 92,371	33,274	(59,097)	-63.98%
Wheat	bu 21,566	20,060	(1,506)	-6.98%
Sorghum	bu 42,302	31,442	(10,860)	-25.67%

USDA-NASS = United States Department of Agriculture National Agriculture Statistics Service
bu = bushels
lbs = pounds

Source: USDA-NASS and ADC consignment sheets and weight tickets

As **Exhibit VI** shows, the Division's production level for all crops, except rice, was lower at all locations than USDA-NASS estimates. Division management stated that the primary reason for the yield differences was the lack of wells and irrigation capacity at all farms. According to the Farm Administrator, a well normally exists for every 80 to 100 acres; however, Cummins has a well every 190 acres, while Tucker and East Arkansas have a well every 140 acres. According to Cooperative Extension Service personnel, a well for every 140-190 acres would limit production.

For fiscal year 2015, ALA staff's objectives related to cash crops were to:

- Determine if ADC is using the available field crop acreage to its maximum capacity by double planting areas in the same year.
- Obtain documentation supporting bids provided by non-winning bidders.
- Compare the consignment sheets and weight tickets to the vendor settlement statements to verify accuracy and to verify that ADC received payment for all crops sold.

According to information filed with the Farm Service Administration, ADC double planted approximately 2,637 acres in calendar year 2015: 1,978 acres at Cummins, 274 acres at Tucker, and 385 acres at East Arkansas. The majority was planted with soybeans after wheat was harvested; other fields were planted with corn after wheat was harvested. ALA staff inquired of personnel at the Cooperative Extension Service to determine if ADC is using the available field crop acreage to its maximum capacity by double planting areas in the same year. Personnel responded that the

determination to double plant areas is a local decision or even a field-by-field decision due to multiple factors, including weather and timing of harvest for the first crop. Economic factors would also be considered. For example, yields are typically lower in a field that has been double planted, and if soybeans are selling at a good price, it might be advantageous to plant full season soybeans. A common practice is for farmers to double plant approximately 25% of their fields. In calendar year 2015, ADC double planted 20% of acreage that was used for crop production.

ADC Administrative Directive 12-28 requires field and horticultural crops to be offered to as large a number of potential buyers from both the statewide and regional area, as is practical, to generate the best price possible for ADC commodities. All sales or bids should be awarded on the basis of the most revenue generated for ADC and in a manner consistent with Arkansas procurement laws. Although ALA staff requested documentation of the bids submitted by the non-winning buyers on all crop sales in fiscal year 2015, ADC could not provide this information (**Finding 3**).

Based on testing conducted by ALA staff, there were no material differences between the ADC consignment sheets and the vendor settlement statements. However, ALA staff could not determine a complete population of consignment sheets because the forms were not prenumbered but were generated as needed from a Microsoft Excel template (**Finding 4**). Additionally, ALA staff noted one instance in which ADC was overcompensated for the sale of crops and failed to report the error. (**Finding 5**).

Beef Cattle

As of June 30, 2015, ADC had approximately 2,100 head of beef cattle. The cattle are raised to be sold, with the proceeds used to purchase ground beef for inmate consumption. In fiscal year 2015, ADC sold a total of 1,512 animals for \$2.0 million at livestock auctions in Oklahoma and Arkansas as shown in **Exhibit VII**.

Exhibit VII

**Arkansas Department of Correction (ADC) – Agriculture Division
Beef Cattle Sales
For Fiscal Year 2015**

Auction Venue Location	Units Sold	Gross Sales a	Commissions and Fees Paid b	Net Sales (a-b)	Estimated Gross Sale Price in	
					AR (Note 1) c	Variance (a-c)
Oklahoma City, OK	611	\$ 880,060	\$ 25,598	\$ 854,462	\$ 784,985	\$ 95,075
Oklahoma City, OK	507	662,130	21,073	641,057	593,250	68,880
OK Sales Totals	1,118	1,542,190	46,671	1,495,519	\$ 1,378,235	\$ 163,955
Morrilton, AR	219	318,343	11,467	306,876	(Note 2)	
Ola, AR	83	121,504	5,921	115,583	(Note 2)	
Waldron, AR	83	117,547	5,234	112,313	(Note 2)	
Morrilton, AR	9	15,358	721	14,637	(Note 2)	
AR Sales Totals	394	572,752	23,343	549,409		
Sales Totals	1,512	\$ 2,114,942	\$ 70,014	\$ 2,044,928		

Note 1: Prices obtained from the United States Department of Agriculture (USDA) - Arkansas Cooperative Extension Service Arkansas Weekly Livestock Summary. It should be noted that prices vary each week.

Note 2: ADC did not obtain Oklahoma prices for these Arkansas sale dates.

Source: ADC sales receipts and USDA-Arkansas Cooperative Extension Service Arkansas Weekly Livestock Summary (unaudited by Arkansas Legislative Audit)

ALA staff objectives related to cattle production and sales were to:

- Determine if ADC is using the beef cattle grazing acreage at its maximum capacity by comparing animals per acre to statewide data.
- Determine the state average for the number of animals that should have been sold and compare to actual sales, based on the size of the beef cattle herd.
- Determine if there was documented approval to sell the cattle.
- Examine transporting procedures.
- Compare the weight tickets from ADC to the weight documented by the sale barn.
- Examine ADC's determination of whether to sell the animals in Oklahoma or Arkansas.

As mentioned previously, as of June 30, 2015, ADC had 2,100 head of beef cattle located at the Cummins and Wrightsville Units and a grazing capacity of approximately 5,000 acres. ALA staff evaluated the Division's use of beef cattle grazing areas by comparing the number of beef cattle per acre to the average number of animals per acre at the state level. The average animals per acre calculated for ADC was 2.4, and the statewide average, provided by the Arkansas Beef Council, was 2.5, indicating that the Division's use of pasture and grazing areas is comparable with other operations in the State.

ALA staff evaluated other data from the beef cattle operations by comparing the number of animals sold in fiscal year 2015 to a statewide average of similar-sized operations. As shown in **Exhibit VII on page 8**, the Division sold 1,512 animals in fiscal year 2015. Based on statistical information provided by the Arkansas Beef Council and knowledge of the Division's operations, ALA staff estimated the average number of animals that should have been sold to be 1,382. Based on this surface analysis, Arkansas Beef Council personnel believe that ADC's operation is performing at a level typical for the State.

Procedures implemented by Administrative Directive 12-28 required the Division's Deputy Director, or his or her designee, to determine the need to sell livestock, with final approval coming from the ADC Director. ALA staff requested documentation of approvals to sell cattle for all transactions during fiscal year 2015. ADC could not provide documentation to support decisions made by the Division's Deputy Director or the ADC Director. Based on the information received by ALA staff, all decisions were made by the Farm Administrator. ADC subsequently amended Administrative Directive 12-28 with Administrative Directive 15-22, effective July 31, 2015, and Administrative Directive 16-07, effective March 30, 2016, which allow the Division's Deputy Director or the Farm Administrator, if designated, the authority to authorize sales, with notification provided to the ADC Director (**Finding 6**).

Procedures implemented by ADC also require that two employees not affiliated with the beef herd monitor and count the animals as they are loaded for transport and then sign off on the consignment sheet to document that the procedure has been completed. These procedures were not followed for two of the six sales in fiscal year 2015. In one instance, there was only one signature, and in the other instance, the two employees who signed off on the consignment sheet were both employed in the beef herd section (**Finding 7**).

As mentioned above, ALA staff compared the weight tickets from ADC to the weight documented for the cattle by the sale barns and found a total difference in weight of 19,215 pounds (2.08%). ADC management stated that the industry standard for shrinkage caused by the stress involved in transporting the animals is 2% to 5%, which was confirmed by the Arkansas Livestock and Poultry Commission (ALPC).

ALA staff also evaluated the practice of ADC selling cattle in Oklahoma by examining the two sales in Oklahoma City during fiscal year 2015. ADC supported its decisions to sell in Oklahoma by comparing the prices received to averages obtained from the USDA-Arkansas Cooperative Extension Service Arkansas Weekly Livestock Summary Reports. ALA staff again requested ALPC's professional opinion concerning if the animals sold in Oklahoma were comparable to feeder steers and heifers, which ALPC confirmed. In both instances, ADC appeared to generate greater revenue in Oklahoma than when selling similar animals in Arkansas. No documentation was available to support the determination to sell at the Arkansas locations for four sales during fiscal year 2015 (**Finding 8**). According to the ADC Farm Manager, the animals sold in Arkansas were cull or inferior cattle that do not sell well in Oklahoma.

Each livestock auction assesses commissions and other fees to sellers. For ADC cattle sales during fiscal year 2015, ALA staff determined an average assessment per head sold for the four sales in Arkansas and compared it to the average assessment per head for the two sales in Oklahoma. The fees charged by Arkansas auction houses averaged \$59.25 per head, while the fees charged by the Oklahoma auction house averaged \$41.75 per head. The \$17.50 per head difference contributes to the profitability of selling animals in Oklahoma.

Egg Production and Sales

ADC's final purchase of powdered eggs occurred in March 2015, as it transitioned to in-house production and sale of eggs beginning that same month, with the completion of three layer houses and one pullet house. Total cost of the project through April 30, 2016, was \$5.5 million. The facility has the capacity to grade up to 25,000 eggs per hour and generally operates seven days per week, from 6 a.m. to 3 p.m.

From March 2015 through April 2016,⁴ the Division produced 34 million eggs, for a daily average of 82,000. Of this 34 million, 20.6 million were sold to outside parties, 12.9 million were consumed by inmates, and 500,000 remained on-hand.

Egg sales to outside purchasers from March 2015 through April 2016 totaled \$1.7 million, with the largest buyers being McCall Sanders Marketing and the Oklahoma Department of Corrections (ODC). Through a contract with ADC, ODC purchases white medium eggs for a minimum of 10% less than the Urner Barry spot market price for the south central area; the contract also allows ADC to purchase meat from ODC at a reduced cost, although no purchases were made. ADC has no other contracts with outside purchasers, and all other sales are made by competitive bid. ALA staff examined the 15 highest sales to outside purchasers (eight awarded to highest bidder and seven to ODC on contract) to ensure the following:

- The sale was awarded to the highest bidder or in accordance with the contract terms.
- The sale price was calculated correctly and agreed with the bid or contract price.
- The sale quantity agreed with the bid quantity.

Examination of the seven sales to ODC under contract revealed no exceptions. Review of the eight sales awarded to the highest bidder revealed one instance in which the price on the bid sheet did not agree with the final sale price, resulting in a loss to ADC of \$2,016. ALA staff also noted five other instances in which the bid quantity did not agree with the amount received by the purchaser. All of the quantity differences seemed to result from a logistical issue related to hauling capacity. At ALA staff's request, ADC management confirmed with the purchaser that all sale orders were complete.

⁴Since egg production was operational for less than three months in fiscal year 2015, ALA staff expanded evaluation of production and testing of sales through April 2016.

Food Consumption by Inmates

Because the Division is responsible for producing sufficient food for inmate consumption in a cost-effective manner, ADC is annually provided a loan from the Budget Stabilization Trust Fund for farm production purposes, in accordance with Ark. Code Ann. § 19-5-501. The outstanding amount of the loan is reduced by the value of products produced or processed on the farm and consumed by inmates. This determination is certified by the Legislative Auditor to the Chief Fiscal Officer of the State. The fiscal year 2015 loan amount was \$5.6 million, and the full amount was forgiven based on ALA's Report on Certification of Consumption of Farm Produce, which stated that the value of farm commodities consumed by inmates was \$8.8 million.

Additionally, Ark. Code Ann. § 12-30-307 states the ADC Inmate Care and Custody Fund *may* make payments to the Farm Fund not to exceed 50 cents on each dollar's worth of food produced by ADC farms for consumption by inmates. In fiscal year 2015, the Inmate Care and Custody Fund reimbursed the Farm Fund \$1.25 million.

COSTS OF PRODUCTION

ALA staff evaluated the Division's production costs for soybeans, rice, corn, wheat, and sorghum for calendar year 2015. Expenses by crop were based on the information recorded in AASIS and compared to the U of A Division of Agriculture's 2015 Crop Enterprise Budgets, as shown in **Exhibit VIII**.

It should be noted that the information presented in the income statement found in **Schedule 1 on pages 23-24** is for fiscal year 2015 and includes all expenses of the farm program presented on a full accrual basis. The expenses shown in **Exhibit VIII** are only for production of row crops during calendar year 2015. Around \$8.6 million was coded to activities other than row crops, including livestock, gardens, dairy, feed mill, eggs, and processing. ALA staff did not test the account coding of any expenses. Based on comparison of expenses coded by ADC to row crop production, costs associated with producing field crops were 9.8% less than U of A estimates.

Exhibit VIII

Arkansas Department of Correction (ADC) – Agriculture Division Comparison of ADC Crop Expenses to University of Arkansas (U of A) Estimated Expenses For Calendar Year 2015

Crop	U of A		Difference	Percentage Difference from Estimate
	Enterprise Budget Estimated Expenses	ADC Expenses		
Soybeans	\$ 3,375,933	\$ 2,475,732	\$ 900,201	26.67%
Corn	1,727,660	1,284,062	443,598	25.68%
Rice	1,119,750	1,137,711	(17,961)	-1.60%
Wheat	1,008,690	1,602,139	(593,449)	-58.83%
Sorghum	184,640	184,622	18	0.01%
Totals	\$ 7,416,673	\$ 6,684,266	\$ 732,407	9.88%

Source: U of A Division of Agriculture - 2015 Crop Enterprise Budgets and Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Vendor Selection

Other objectives of ALA staff review of farm expenses included evaluating vendor selection for seed, feed, fertilizer, and chemical expenses; aerial application of chemicals; and farm equipment leases. ALA staff also analyzed the terms and cost benefits of leasing farm equipment.

Seed, Feed, Fertilizer, and Chemical Expenses

Based on Ark. Code Ann. § 19-11-203(14)(DD), fertilizers, seed, seedlings, and agricultural-related chemicals purchased by ADC do not have to be obtained through the Office of State Procurement (OSP). ALA staff examined 15 transactions totaling \$923,800 with vendors that provided these products to ensure that the lowest price was selected and to verify that the actual amount paid agreed with the bid documentation provided by ADC. ALA staff noted one exception in which ADC did not maintain documentation of bids received. The test was expanded to include an additional 25 transactions totaling \$679,300, and no additional errors were noted.

Aerial Application of Chemicals

For each location where row crops are farmed, a vendor provides aerial application of chemicals to fields as needed. During fiscal year 2015, three vendors provided these services to ADC. OSP administered the bidding and vendor selection for these contracts based on the specifications provided by ADC. All three contracts are term contracts for one year from the date issued and are eligible for up to six annual extensions. The term contracts guarantee a specific price per gallon/pound for the duration of the contract period; therefore, the total contract amount is dependent upon actual quantities used. **Exhibit IX** discloses the relevant terms of these contracts and amounts expended.

According to documentation provided by OSP, only one vendor responded to the invitation to bid on each of the contracts. ALA staff verified that any extensions were approved by both ADC management and the vendor, with no exceptions.

Exhibit IX

**Arkansas Department of Correction (ADC) – Agriculture Division
Vendors for Aerial Application of Chemicals
For the Fiscal Year Ended June 30, 2015**

	Unit		
	Cummins	Tucker	East Arkansas
	Vendor A	Vendor B	Vendor C
Original contract date	7/17/2014	6/5/2013	4/15/2013
Amount expended	\$225,214	\$107,987	\$37,396

Note: The term contracts guarantee a specific price per gallon/pound for the duration of the contract period; therefore, the total contract amount is dependent upon actual quantities used.

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Farming Equipment

With assistance from OSP, ADC developed bid specifications to lease 21 pieces of farming equipment, which included a combine, a header, and multiple tractors and attachments. The lease was issued in December 2012 as a term contract for 12 months. Upon mutual agreement, the contract could be extended for up to six additional one-year periods or a portion thereof. Three vendors responded to the invitation to bid.

According to OSP, if the vendor could not supply all of the equipment meeting the bid specifications, then the vendor's bid was not considered. Bids by Vendors A and B were rejected by OSP because they submitted specifications for a tractor with horsepower that exceeded the bid specifications. Specifically, item three on the invitation to bid was for an agriculture tractor with an engine horsepower rating between 129 and 135, while the vendors whose bids were rejected provided specifications for tractors with 140 horsepower, leaving only one qualified vendor, Vendor C, which was awarded the contract.⁵ Vendors A and B both objected to the award, and the Director of OSP denied their objections. **Exhibit X** shows each vendor's bid amount and the payments that have been made in accordance with the contract.

At the end of each 12-month period, one of the options allowed was terminating the lease and purchasing any or all of the equipment at fair-market value. ADC did purchase equipment it had leased; however, it did not do so through this particular option since the terms prohibited ADC from leasing that type of equipment in the future. In fiscal year 2014, ADC purchased four tractors through sole source procurement from Vendor C for \$669,477. In fiscal year 2015, two tractors were purchased through an invitation to bid issued by OSP for a total of \$231,500. Vendor C was the only vendor that responded to the bid. All six tractors had previously been used by ADC through the lease agreement. ALA staff analyzed these purchases by adding the lease payments to the purchase price and comparing this total to the invoice price for a new tractor, as provided by the vendor. The results are shown in **Exhibit XI on page 14**.

Exhibit X

Arkansas Department of Correction (ADC) – Agriculture Division Vendors for Leased Farming Equipment Fiscal Years 2013 through 2016

	Vendor A	Vendor B	Vendor C*
Bid Amount	\$ 379,467	\$ 336,958	\$ 379,656
Payments			
Year 1			\$ 379,656
Year 2			397,922
Year 3			401,444
Total			\$ 1,179,022

*When the contract was renewed in subsequent years, price increases were allowed as long as they were substantiated to the Office of State Procurement prior to billing ADC, which the vendor did.

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Overall, the leasing and subsequent purchase of the tractors shown in **Exhibit XI on page 14** resulted in a cost savings to the Division. Regarding the benefits of leasing or purchasing farm equipment, economists at the Cooperative Extension Service noted that row crop farmers vary in their leasing and purchasing practices. If there are depreciation and tax advantages to purchasing, farmers tend to buy equipment; otherwise, they tend to lease equipment. With the downturn in crop prices over the past several years, equipment dealers' sales have decreased, and many new and innovative lease options are being tried and may make leasing more attractive.

⁵According to ADC management, the range of horsepower on this tractor was small because there is a difference in the quality of tractors in the lower horsepower ranges, and ADC wanted to ensure it received a true row crop tractor.

Exhibit XI

Arkansas Department of Correction (ADC) – Agriculture Division
 Cost Comparison of Purchasing Previously-Leased Tractors to New Tractors

Tractors Purchased FY2014	Lease Payments	Purchase Price	Total	New Purchase Price	Gain/(Loss) on Transaction
Case Magnum 340	\$ 24,634	\$ 199,630	\$ 224,264	\$ 257,663	\$ 33,399
Case Magnum 290	22,735	177,578	200,313	224,258	23,945
Case Magnum 290	22,735	177,578	200,313	224,535	24,222
Case Puma 130	18,892	114,691	133,583	120,411	(13,172)
Fiscal Year 2014 Total	88,996	669,477	758,473	826,867	68,394
Tractors Purchased FY2015					
Case Puma 130 with Loader	23,110	115,750	138,860	134,580	(4,280)
Case Puma 130 with Loader	23,110	115,750	138,860	134,580	(4,280)
Fiscal Year 2015 Total	46,220	231,500	277,720	269,160	(8,560)
Totals	\$ 135,216	\$ 900,977	\$ 1,036,193	\$ 1,096,027	\$ 59,834

Source: ADC and Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

VALUE OF LAND AND LEASE INCOME

Value of Land

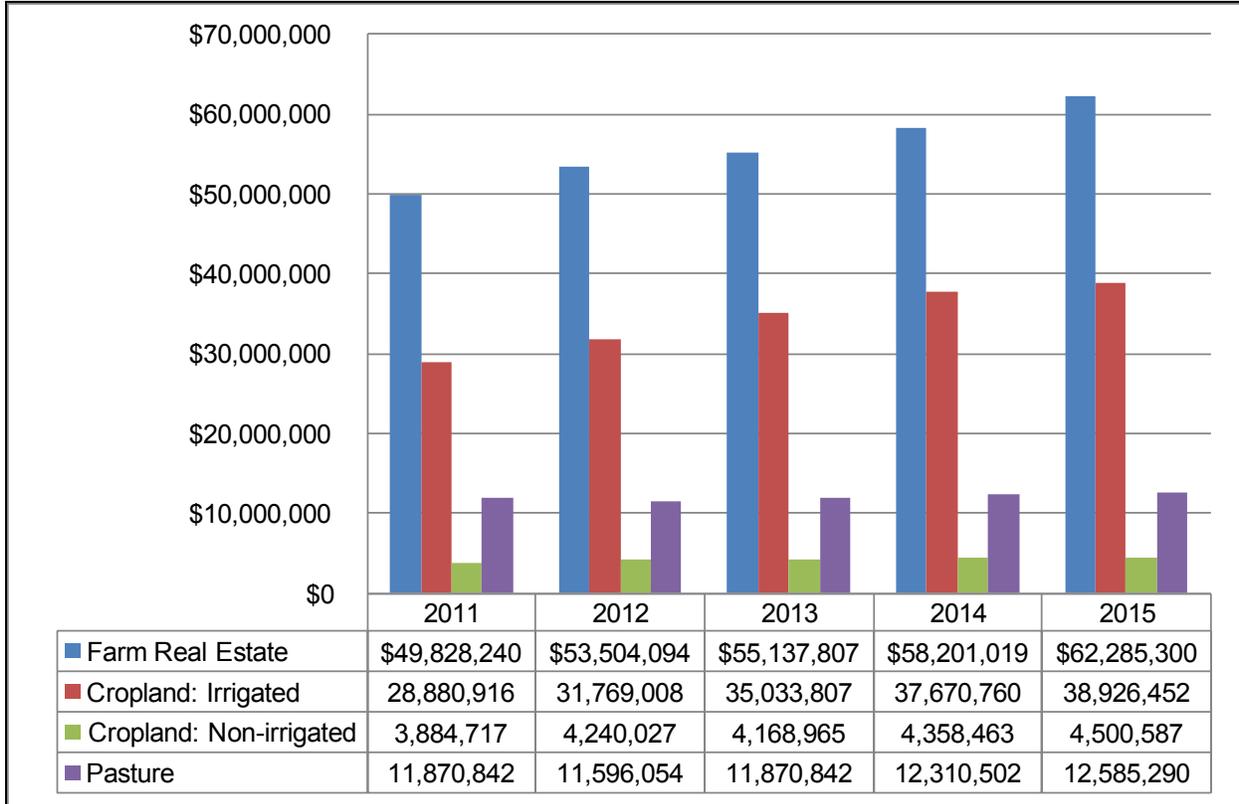
Parcels of land farmed by ADC have been accumulated over the past 100-plus years. The cost of these assets, which is reflected on the balance sheet found in **Schedule 2 on pages 25-26**, is not indicative of their present market value. ALA staff estimated current market value using estimates reported in the Land Values 2015 Summary published by the USDA-NASS, dated August 2015. The USDA-NASS includes Arkansas in the delta economic region, along with Mississippi and Louisiana. The report provides an average value per acre for farm real estate, farm cropland, and pasture, determined as follows:

- *Farm real estate*: the value at which all land and buildings used for agriculture production, including dwellings, could be sold under current market conditions if allowed to remain on the market for a reasonable amount of time.
- *Farm cropland*: the value of land used to grow field crops or vegetables or land harvested for hay.
- *Pasture*: the value of land that is normally grazed by livestock.

Over the five-year period from 2011 to 2015, farm real estate values in the delta economic region increased from an estimated per-acre value of \$2,300 in 2011 to \$2,780 in 2015, an increase of 21%. Values per acre in Arkansas increased more dramatically over this same period, from \$2,440 to \$3,050 (25%). **Exhibit XII on page 15** shows the increase in value of farm real estate, irrigated and non-irrigated cropland, and pasture used by ADC from 2011 to 2015. **Appendices A, B, and C** show nationwide changes in values for farm real estate, farm cropland, and pasture, respectively, from 2014 to 2015.

Exhibit XII

**Arkansas Department of Correction (ADC) – Agriculture Division
Value of Farm Real Estate, Cropland, and Pasture
Calendar Years 2011 through 2015**



Source: United States Department of Agriculture National Agriculture Statistics Service (USDA-NASS) Land Values 2015 Summary (unaudited by Arkansas Legislative Audit)

Potential Lease Income

Ark. Code Ann. § 12-30-308 allows the Board of Corrections, with the Governor's approval, to offer for rent or lease any land owned by the State and under the jurisdiction of the Board that is not needed in the operation of the penal system. If ADC ceased farming operations or determined that it was not necessary or feasible to cultivate all areas, the Board has the authority to enter into lease agreements with other entities.

ALA staff obtained estimated annual cash rent per acre for irrigated land, non-irrigated land, and pasture from the USDA-NASS and from AgHeritage Farm Credit Services, who were recommended by the U of A Cooperative Extension Service to provide a range of rental prices. The acres used were obtained from the Report of Commodities (FSA-578) filed by ADC with the Farm Service Administration. These FSA forms require ADC to certify that the acreage of crops/commodities and land uses listed are true and correct. ALA staff then calculated an estimated range of rental income if all acreage as reported on the FSA-578 forms were rented. Based on these sources, potential rent revenue to the State in one year would range from \$1.7 million to \$2.6 million, as shown in **Exhibit XIII on page 16**.

Exhibit XIII

Arkansas Department of Correction (ADC) – Agriculture Division
Potential Revenue from Rent or Lease of Farm Land

Unit (County)	Acres	Estimated Annual Cash Rent (Note)					
		USDA-NASS	Per Acre	AgHeritage Farm Credit Service			
				Low	Per Acre	High	Per Acre
Cummins (Lincoln County):							
Irrigated	7,750	\$ 774,920	\$ 100	\$ 1,278,618	\$ 165	\$ 1,356,110	\$ 175
Non-irrigated	1,293	55,589	43	116,348	90	148,667	115
Pasture	2,362	28,339	12	35,424	15	70,847	30
Total Cummins	11,405	858,848		1,430,390		1,575,624	
Tucker (Jefferson County):							
Irrigated	2,778	419,531	151	458,428	165	486,211	175
Non-irrigated	869	76,901	88	78,205	90	99,928	115
Pasture	91	1,454	16	1,363	15	2,726	30
Total Tucker	3,738	497,886		537,996		588,865	
East Arkansas (Lee County):							
Irrigated	2,029	225,260	111	334,846	165	355,140	175
Non-irrigated	207	14,906	72	18,633	90	23,809	115
Pasture	169	2,538	15	2,539	15	5,077	30
Total East AR	2,405	242,704		356,018		384,026	
Wrightsville (Pulaski County):							
Pasture	2,637	61,971	24	39,556	15	79,112	30
North Central (Izard County):							
Pasture	254	2,536	10	3,805	15	7,610	30
Totals	20,439	\$ 1,663,945		\$ 2,367,765		\$ 2,635,237	

USDA-NASS = United States Department of Agriculture National Agriculture Statistics Service

Note: The USDA-NASS conducts a survey of farm operators to determine an average by geographic location. The most recent survey available was for 2014. AgHeritage Farm Credit Service (AFCS) is a financial cooperative that focuses on the financial needs of the agricultural community in 24 central Arkansas counties. AFCS provided estimates based on observations of market conditions.

Source: USDA-NASS, AgHeritage Farm Credit Services, and USDA Farm Service Administration (unaudited by Arkansas Legislative Audit)

An additional revenue stream that could result from selling or leasing ADC farm land would be the tax revenue to the State as well as local governmental entities. It should be noted that any lease agreement for farm land would create logistical and security issues involved in moving equipment and labor into a prison facility.

FARM PROGRAMS IN OTHER STATES

ALA staff requested information from officials in Mississippi, Louisiana, Tennessee, Oklahoma, and Missouri on the agriculture activities within their correctional systems in order to compare current practices and determine how other states financially contribute to their respective correctional departments. The information received from these states is shown in **Exhibit XIV on page 17**. Based on information provided from each state’s respective correctional system, Arkansas has the largest farming operation in terms of acreage, livestock, and sales.

Exhibit XIV

**Agricultural Activities in Departments of Correction in Arkansas and Five Surrounding States
Fiscal Year 2015**

	State					
	Arkansas	Mississippi	Louisiana	Tennessee ¹	Oklahoma	Missouri ²
Crops and Gardens Acreage						
Soybeans	8,037	2,638	2,014			
Wheat	3,173	1,116	316			
Corn	2,638		360			
Rice	1,511	100				
Sorghum	521	561	180			
Vegetable gardens	572	913				
Oats	176					
Total Producing Acres	16,628	5,328	2,870	3,650	0	0
Livestock						
Beef Cattle	2,100		2,622		1,650	
Dairy Cattle	462			477	475	
Pork	2,400					
Chickens	142,284	12,000				
Total Livestock	147,246	12,000	2,622	477	2,125	0
Revenue and Inmate Consumption						
Sales	\$ 9,458,105	\$ 1,105,620	\$ 4,721,365	\$ 2,288,000	(Note)	
Rental income		689,280				
Inmate consumption ³	8,795,399	782,967			\$11,129,557	
Total Revenue and Inmate Consumption	\$18,253,504	\$ 2,577,867	\$ 4,721,365	\$ 2,288,000	\$11,129,557	\$ 0

¹Tennessee provided totals rather than information by activity. Additionally, Tennessee operates a dairy that produces milk for inmate consumption but did not provide a value for this commodity.

²Missouri does not have an Agriculture Division within its correctional system.

³Inmate consumption is the value of products produced or processed on correctional system farms and consumed by inmates.

Note: The amount reported by Oklahoma as revenue from sales appears to be incomplete.

Source: Various states' correctional systems (unaudited by Arkansas Legislative Audit)

OTHER ISSUES

Accident at Egg Production Facility

According to ADC, in July 2015, a power outage at the egg production facility resulted in the death of approximately 41,000 chickens, with a replacement cost of \$202,950. The incident was caused by an electrical power pole being hit by an inmate who was operating farm equipment, resulting in loss of power to the Cummins farming area. The egg production facility had a generator in place that had been refurbished by the Construction Division. Although the generator was periodically tested, it did not produce electricity as designed on this day, and ADC employees were unable to correct the problem. A generator was rented and delivered to the Cummins facility as soon as possible, but the birds could not be saved. As a result, a new primary generator was purchased at a cost of \$116,057. The primary generator is tied to a secondary generator to provide multiple layers of backup power. The generators are tested weekly, according to the Farm Administrator.

Land Leases

ALA staff reviewed any instances in which ADC was leasing land for farming and found these to be minimal. During fiscal year 2015, ADC leased approximately 190 acres at a cost of \$1,816.

Inmate Cost per Day and Prison Accreditation

Due to prison overcrowding, ADC entered into a contract with Bowie County, Texas, to house up to 288 male inmates at a fixed rate of \$36 per inmate per day. According to ADC, in fiscal year 2015 the average cost per inmate per day was \$62.90 in an ADC correctional facility and \$28 in a county jail in Arkansas. ADC attributed the difference in costs to level of service: Compared to a county jail, ADC correctional facilities have a higher level of staffing and provide more programs to inmates.

Although ADC is accredited by the American Correctional Association, accreditation is not required for all facilities that house inmates (e.g., county jails). The accreditation process offers the opportunity to evaluate ADC operations against national standards and remedy any deficiencies. Accreditation benefits could include defense against lawsuits through the documentation required by accreditation standards and an improved environment for ADC personnel and inmates. The total amount paid to the American Correctional Association for accreditation fees in fiscal year 2015 was \$61,800.

Inspections of Processing Facilities

ADC's processing facilities are subject to the following inspections by the Arkansas Livestock and Poultry Commission and the Arkansas Department of Health:

Arkansas Livestock and Poultry Commission

- Swine herd tested annually for brucellosis and pseudorabies.
- Egg facilities tested quarterly for compliance with USDA standards.

Arkansas Department of Health

- Raw milk and processed milk both tested four times in a six-month period in accordance with Food and Drug Administration (FDA) standards for a Grade A permit.
- Milk processing equipment tested quarterly in accordance with FDA standards for a Grade A permit.
- Vegetable processing facilities inspected annually in accordance with the State's standards for a Retail Food Establishment license.

ALA staff examined the results of the inspections over various time periods, depending on when the tests were required (i.e., quarterly, annually, etc.) and noted the following:

- *Swine* – Negative for brucellosis and pseudorabies.
- *Eggs* – Noncompliance was noted, but ADC corrected deficiencies at that time.
- *Milk and milk processing equipment* – Noncompliance was noted. ADC received four warning letters, and its permit was suspended three times.
- *Vegetables* – No instances of noncompliance.

NOTEWORTHY ACCOMPLISHMENTS

Cost-Savings to the State

The Division provides produce and other commodities at a savings to the State by supplying these items at a reduced cost. Over the five-year period ending with fiscal year 2015, ALA staff estimated this savings to be \$7.8 million, as shown in **Exhibit XV**. This amount was determined by comparing the value of items produced or purchased by the Division, as noted in ALA's Report on Certification of Consumption of Farm Produce, to the amount of state funding provided to achieve these tasks.

Exhibit XV

Arkansas Department of Correction (ADC) - Agriculture Division Cost-Savings to the State from Commodities Produced and Purchased by ADC For Fiscal Years 2011 through 2015

	Fiscal Year				
	2015	2014	2013	2012	2011
Value per Report on Certification of Consumption of Farm Produce	\$ 8,795,399	\$ 7,220,067	\$ 6,883,215	\$ 7,310,208	\$ 6,079,035
State Funding:					
Budget Stabilization Trust Fund loan	(5,600,000)	(4,600,000)	(4,600,000)	(4,600,000)	(4,600,000)
Reimbursement from Inmate Care and Custody Fund	(1,250,000)	(250,000)	(1,000,000)	(1,000,000)	(1,000,000)
Cost-Savings to the State	\$ 1,945,399	\$ 2,370,067	\$ 1,283,215	\$ 1,710,208	\$ 479,035

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit) and Arkansas Legislative Audit Report on Certification of Consumption of Farm Produce

Inmate Incentives

As an incentive to work in ADC farming operations, inmates are provided with meritorious good time in accordance with Ark. Code Ann. §§ 12-29-201 – 12-29-202, namely the reduction of parole or transfer eligibility date based on good discipline, behavior, work practices, job responsibilities, and involvement in rehabilitative activities while under the control and supervision of ADC. Inmates in the Agriculture Division are awarded good time based upon becoming proficient in the job skills related to their work assignment. Each job skill contains three levels: beginner, intermediate, and senior. Each inmate is reviewed and tested for advancement at a minimum of every 90 days, and after successful completion of each level, the inmate is recommended for the following good time award:

- Beginner level – 10 days.
- Intermediate level – 20 days.
- Senior level – 60 days.

Upon completion of the senior level, inmates should be expected to perform the designated job at a reasonable level upon their return to society. In fiscal year 2015, 94 inmates from the Division completed a program achievement of beginner, intermediate, and/or senior, resulting in 1,680 days of meritorious good time awarded and applied against these inmates' parole or transfer eligibility dates.

FINDINGS AND RECOMMENDATIONS

As a result of review of ADC Agriculture Division operations, ALA staff issue the following findings, which were previously noted in the report, and their accompanying recommendations:

Finding 1: According to ADC, 350 inmates are allowed to work daily to support Division operations. Although the number of inmates and the number of hours worked by inmates are reported to the Board of Corrections, ALA staff were unable to verify this information since the Division does not have a consistent reporting mechanism in place among the various Units.

ALA staff recommend ADC management establish procedures to ensure that information reported to the Board of Corrections or outside entities is fully documented and supported by source data.

Finding 2: As part of the annual close-out, the ADC records a journal entry for an estimated amount of crops that have not been harvested as of year-end. ADC management did not review and approve the estimation of crops in progress (CIP), and as a result, CIP was overstated by \$706,317. The amount of inventory recorded for CIP was decreased and expenses were increased by \$706,317 to reflect the misstatement. This lack of internal controls over the CIP calculation and entry in AASIS limits ADC's ability to provide assurance that the estimation of CIP was accurate.

ALA staff recommend ADC management implement internal controls that incorporate proper segregation of duties between the calculation and approval of estimations and the related journal entries.

Finding 3: ADC Administrative Directive 12-28 requires field and horticultural crops to be offered to as large a number of potential buyers from both the statewide and regional area as is practical to generate the best price possible for ADC commodities. All sales or bids should be awarded on the basis of the most cash generated for ADC and in a manner consistent with Arkansas procurement laws. Although ALA staff requested documentation of the bids submitted by the non-winning buyers on all crop sales in fiscal year 2015, ADC could not provide this information. Without maintaining complete documentation of sales transaction, ADC limits its ability to support its decisions to management, the Board of Corrections, and others.

ALA staff recommend ADC management follow procedures for maintaining documentation of all bids submitted for farm commodity sales.

Finding 4: The consignment sheets that ADC used to document and/or summarize the movement of all farm products were not pre-numbered but were generated as needed from a Microsoft Excel template. Pre-numbering or electronically generating unique numbers that cannot be manipulated by management allows for the determination of a complete population for any given time period.

ALA staff recommend ADC management develop consignment sheets that include pre-numbering to provide assurance that all forms have been accounted for within a fiscal year or other time period.

Finding 5: ADC was overcompensated \$20,779 for soybeans and corn and failed to report the error. Procedures had been implemented to detect these discrepancies by matching ADC weight tickets to the buyer weight tickets and other documentation provided with the payment; however, ADC personnel performing the controls did not report these errors.

ALA staff recommend ADC management ensure that controls are understood and followed in order to provide assurance that all revenue is recorded accurately and in the correct period.

Finding 6: ADC could not provide documentation that procedures were followed regarding the sale of beef cattle. Internal controls implemented by management, as documented by ADC's Administrative Directive 12-28, require the Division's Deputy Director, or his or her designee, to determine the need to sell produced livestock, with final approval provided by the ADC Director. ALA staff examination of all beef cattle sales in fiscal year 2015 revealed that no documentation was maintained to support any decisions made by the Division's Deputy Director, nor was there any documentation of approval by the ADC Director. Based on the information provided, all decisions to sell animals were made by the Farm Administrator. By not following the directives and procedures implemented, upper management had limited ability to monitor the Division's beef cattle operations. These procedures were modified March 30, 2016, with the issuance of Administrative Directive 16-07. This new directive allows the Division's Deputy Director or the Farm Administrator, if designated by the Deputy Director, to make the decisions to sell produced livestock. Notification of sales are provided to the ADC Director and the Board of Corrections' liaison.

ALA staff recommend ADC management follow its administrative directives and maintain all documentation that supports procedures performed and decisions made, including the determination of designees.

Finding 7: Internal control procedures implemented by ADC require that two employees not affiliated with the beef herd monitor and count the animals as they are loaded for transport and then sign off on the consignment sheet to document that the procedure has been completed. These procedures were not followed for two of the six sales in fiscal year 2015. In one instance, there was only one signature, and in the other instance, the two employees who signed off on the consignment sheet were both employed in the beef herd section.

ALA staff recommend ADC management design and implement internal controls that cannot be circumvented by employees.

Finding 8: In fiscal year 2015, the Division sold beef cattle at auction houses in both Arkansas and Oklahoma. Documentation was provided to support the decisions to sell cattle in Oklahoma to maximize revenue; however, documentation could not be provided to support the decisions to sell within the State. Division management stated to ALA staff that the cattle sold in Arkansas were cull cattle that did not sell well in Oklahoma; however, without documenting any evaluations made, ADC limits its ability to support its decisions to ADC management, the Board of Corrections, and others.

ALA staff recommend ADC management establish procedures to document any evaluations made regarding the most profitable methods for selling livestock.

SUMMARY

The purpose of ADC's Agriculture Division is to provide useful and meaningful work for inmates, cost-effectively produce sufficient food for inmate consumption, and maximize revenues from production and sales of marketable field crops and livestock. The Division produces cash crops and livestock on over 20,000 acres throughout the State, with the Cummins Unit containing the largest farm. According to ADC, 350 inmates are allowed to participate in agricultural operations.

The Division incurred a net loss of \$2.6 million in fiscal year 2015. This loss is attributable to non-operating expenses for the transfer out of capital assets to other ADC funds and commodities produced and consumed by inmates rather than sold. Operating revenues from the sale of commodities produced totaled \$9.5 million, with operating expenses totaling \$16.4 million. Additional non-operating revenue included consumption certification income of \$4.6 million and transfers in from the Inmate Care and Custody fund of \$1.25 million.

Sales of cash crops in fiscal year 2015 totaled \$7.2 million. The Division's production levels were lower than USDA-NASS estimated yields for all crops but rice. Additionally, the Division sold 1,512 head of beef cattle for \$2.0 million in fiscal year 2015 and produced 34 million eggs from March 2015 to April 2016, with 38% being consumed by inmates and 61% being sold to outside parties.

The total value of the Division's farm real estate, cropland, and pasture totaled approximately \$62 million in 2015. If all acreage were rented out, yearly revenue could potentially range from an estimated \$1.7 million to \$2.6 million. Compared to surrounding states, Arkansas has the largest farming operation in terms of acreage, livestock, and sales.

Overall, the Division provides produce and other commodities at a savings to the State by supplying these items at a reduced cost. From fiscal years 2011 through 2015, estimated savings to the State was \$7.8 million.

CONCLUSION

Best practices, technology, and other variables in any industry change over time, and as a result, it may be necessary to request outside assistance to evaluate an entity's operations. Ark. Code Ann. § 12-30-303 establishes a duty of cooperation between the U of A Cooperative Extension Service and the ADC Director. Therefore, based on this review, ALA staff recommend ADC management consider the need for the U of A Cooperative Extension Service or another outside organization to evaluate all farming operations and activities conducted by ADC and to provide recommendations that may be used to maximize revenues from production and sales of marketable field crops and livestock and allow for the cost-effective production of sufficient food for inmate consumption.

MANAGEMENT RESPONSE

Management response is provided in its entirety in **Appendix D**.

Schedule 1

Arkansas Department of Correction (ADC)
Agriculture Division
Income Statement
For the Year Ended June 30, 2015

	Total
OPERATING REVENUES	
Soybean sales	\$ 3,540,067
Rice sales	1,497,581
Corn sales	1,285,852
Wheat sales	791,687
Sorghum sales	53,187
Cattle sales	2,044,928
Juice sales	89,842
Egg sales	59,508
Other livestock sales	51,493
Other sales	43,960
TOTAL OPERATING REVENUES	9,458,105
Less: State Treasury service charge	(170,894)
NET OPERATING REVENUES	9,287,211
OPERATING EXPENSES	
Salaries and benefits	3,444,039
Communication and transportation of commodities	39,959
Printing and advertising	10,158
Repairing and servicing	1,115,352
Utilities and rent	677,759
Travel and subsistence	6,986
Professional services	129,302
Insurance and bonds	111,581
Other expenses and services	416,901
Shop and industrial supplies	319,669
Seed and fertilizer control agent	104,016
Agriculture, horticulture, and wildlife supplies	6,215,832
Commodities, materials, and supplies	1,609,118
Refunds, taxes, and claims	44,765
Meat for inmate consumption	1,536,270
Depreciation	651,046
TOTAL OPERATING EXPENSES	16,432,753

Schedule 1 (continued)

Arkansas Department of Correction (ADC)
 Agriculture Division
 Income Statement
 For the Year Ended June 30, 2015

	Total
OPERATING INCOME (LOSS)	<u>\$ (7,145,542)</u>
NONOPERATING REVENUES (EXPENSES)	
Consumption certification income ¹	4,600,000
Transfers from ADC	1,250,000
Grants and reimbursements	119,641
Interest income	15,890
Loss on fixed asset disposal	(5,844)
Transfer out of capital assets to other ADC units ²	(1,443,307)
Marketing and redistribution sale proceeds	7,137
Prior-year warrants outlawed and cancelled	698
Prior-year refund to expense	<u>3,116</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>4,547,331</u>
CHANGE IN NET POSITION	(2,598,211)
TOTAL NET POSITION - JULY 1	<u>29,891,069</u>
TOTAL NET POSITION - JUNE 30	<u>\$ 27,292,858</u>

¹In fiscal year 2015, the loan from the Budget Stabilization Trust Fund increased by \$1 million to \$5.6 million.

²This expense was a non-recurring journal entry unique to fiscal year 2015: a correcting entry processed by the Department of Finance and Administration in AASIS to reclassify fixed assets to other ADC funds. In total, the entry caused no net effect for the ADC financial statements.

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Schedule 2

Arkansas Department of Correction (ADC)
 Agriculture Division
 Balance Sheet
 For the Year Ended June 30, 2015

	Total
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,946,489
Memberships in cooperative organizations	1,212,428
Receivables:	
Accounts receivable	748,287
Due from other governments	111,676
Due from other funds	17,334
Inventories:	
Livestock	4,540,930
Crop in progress	3,615,136
Feed, seed, fertilizer, and chemicals	1,147,898
Finished goods	600,271
Fuel	100,207
Farm parts	59,061
Total Current Assets	14,099,717
Noncurrent Assets:	
Capital Assets:	
Land and land improvements	9,850,918
Infrastructure	585,012
Buildings	9,416,542
Equipment	16,286,208
Assets under construction	3,873,634
Less accumulated depreciation	(17,183,228)
Total Noncurrent Assets	22,829,086
TOTAL ASSETS	\$ 36,928,803

Schedule 2 (continued)

Arkansas Department of Correction (ADC)
 Agriculture Division
 Balance Sheet
 For the Year Ended June 30, 2015

	<u>Total</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 116,783
Accrued payroll	85,408
Due to other funds of ADC	19,014
Due to other agencies	1,098
Due to other governments	443
Total Current Liabilities	<u>222,746</u>
Noncurrent Liabilities:	
Loan payable to Budget Stabilization Trust Fund ¹	5,600,000
Loan payable to Prison Construction Trust Fund	3,810,124
Claims and judgments	3,075
Total Noncurrent Liabilities	<u>9,413,199</u>
 TOTAL LIABILITIES	 <u>9,635,945</u>
NET POSITION	
Net investment in capital assets	22,829,086
Unrestricted	4,463,772
Total Net Position	<u>27,292,858</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 36,928,803</u>

¹In fiscal year 2015, the loan from the Budget Stabilization Trust Fund increased by \$1 million to \$5.6 million.

Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

APPENDICES

Appendix A – 2015 Farm Real Estate Value by State – Dollars Per Acre and Percent Change from 2014

Appendix B – 2015 Cropland Value by State – Dollars Per Acre and Percent Change from 2014

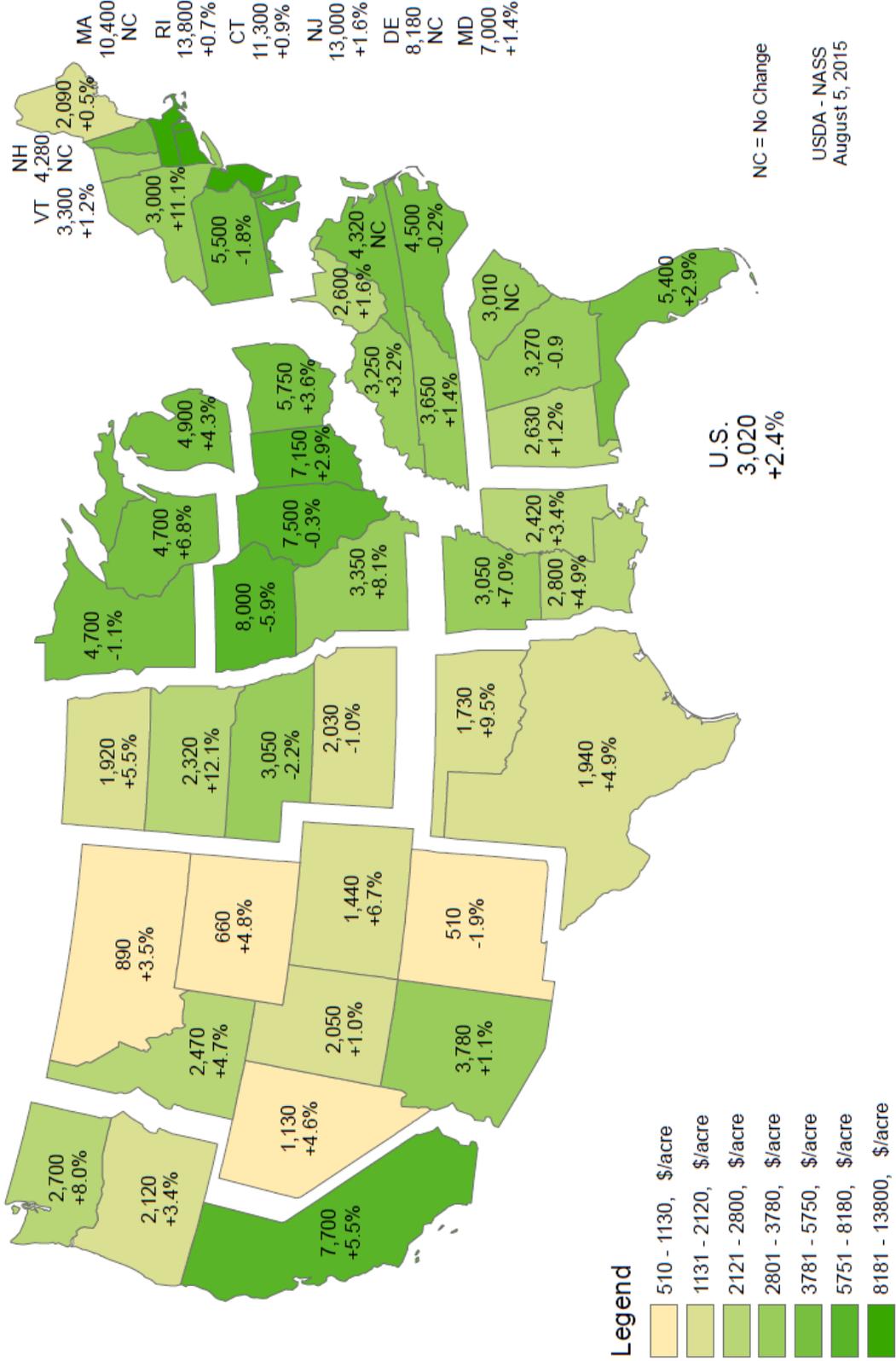
Appendix C – 2015 Pasture Value by State – Dollars Per Acre and Percent Change from 2014

Appendix D – Arkansas Department of Correction – Management Response

Appendix A

2015 Farm Real Estate Value by State

Dollars per Acre and Percent Change from 2014

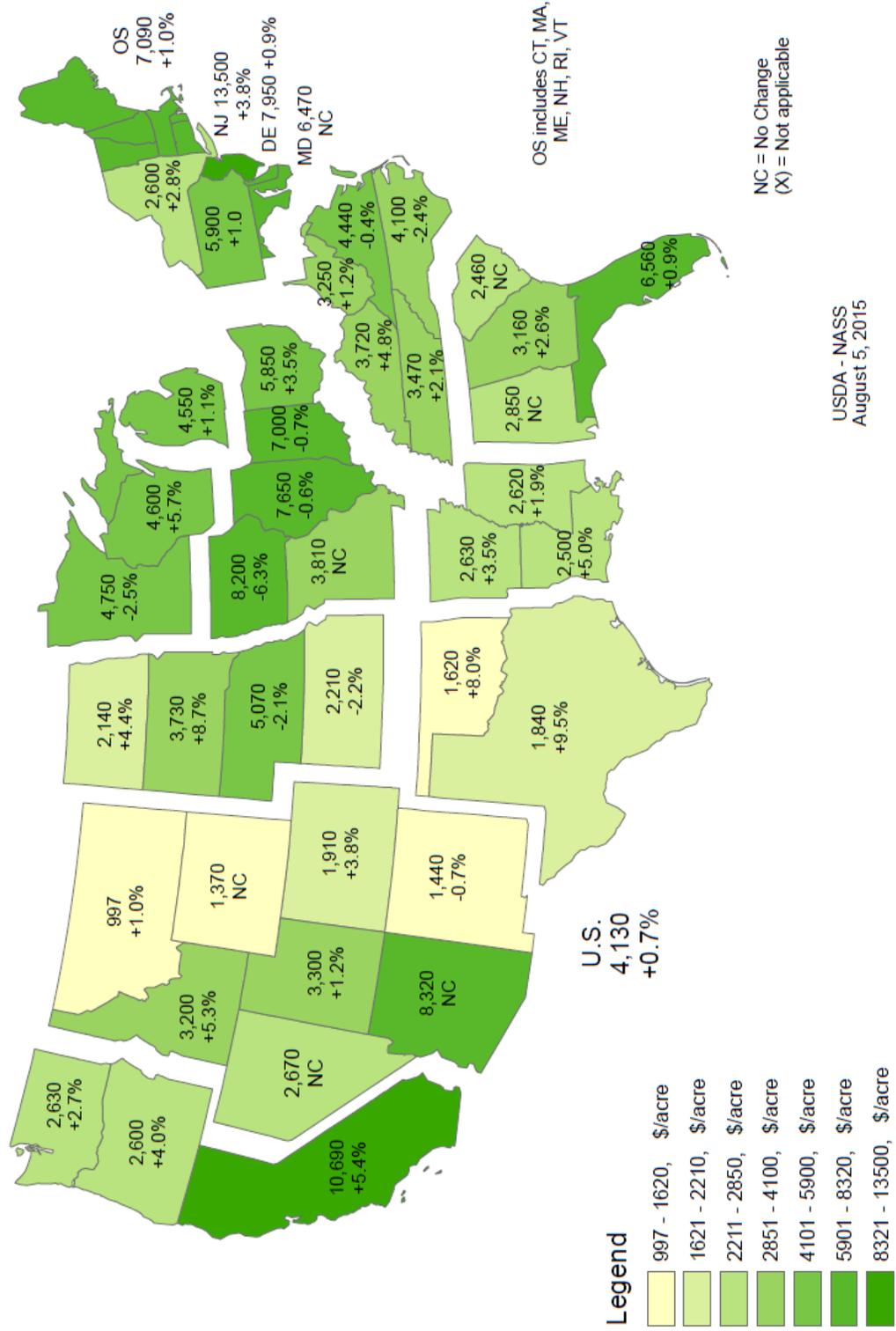


Source: United States Department of Agriculture National Agriculture Statistics Service (USDA-NASS; unaudited by Arkansas Legislative Audit)

Appendix B

2015 Cropland Value by State

Dollars per Acre and Percent Change from 2014

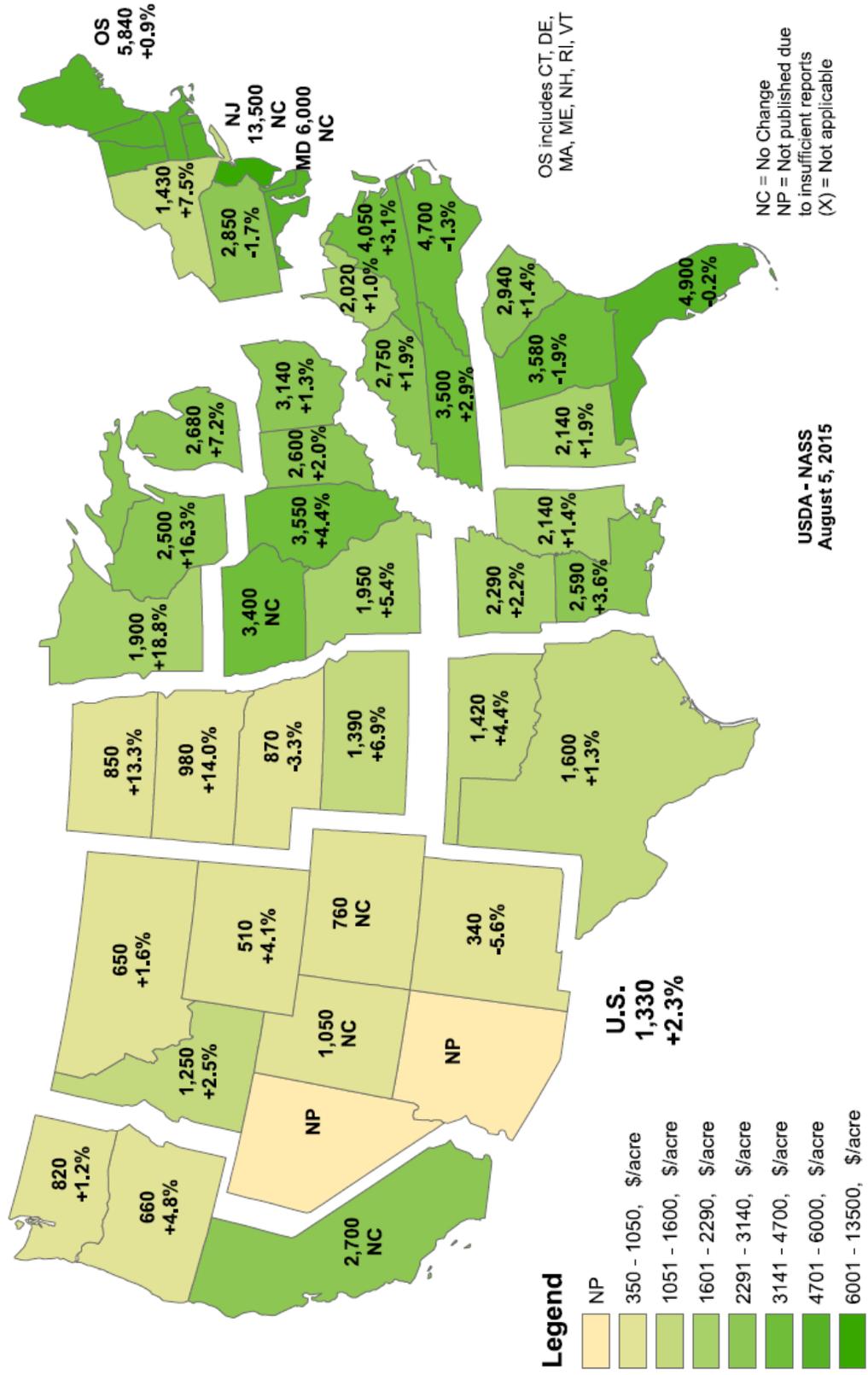


Source: United States Department of Agriculture National Agriculture Statistics Service (USDA-NASS; unaudited by Arkansas Legislative Audit)

Appendix C

2015 Pasture Value by State

Dollars per Acre and Percent Change from 2014



Source: United States Department of Agriculture National Agriculture Statistics Service (USDA-NASS; unaudited by Arkansas Legislative Audit)

Appendix D

Arkansas Department of Correction Management Response



Arkansas Department of Correction

Director's Office
P.O. Box 8707
Pine Bluff, Arkansas 71611-8707
Phone: (870) 267-6200
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September 2, 2016

Don Morgan
Arkansas Legislative Audit
State Capital
500 Woodlane Street
Suite 172
Little Rock, AR 7220

Re: FY 2015 Farm Audit

Dear Mr. Morgan:

This letter is intended to provide the Arkansas Department of Correction's (ADC) response to the recent audit findings conducted on the ADC Farm program for Fiscal Year 2015. This letter will include each finding and then the corresponding agency response.

Finding 1: According to reports provided by ADC to the Board of Corrections, three-hundred-and-fifty (350) inmates work in ADC's farming operations. Although the number of inmates and the number of hours worked by inmates are reported to the Board of Corrections, ALA staff was unable to verify this information since the Farm Division does not have a consistent reporting mechanism in place.

Agency Response: Agency will require each farm to report all inmate hours worked to the Administrative Assistant to the Farm Administrator on a monthly basis. A new standardized report (Attachment 1) will be completed by each farm. The submitted reports will be kept on file in the Farm Administrator's office and will be submitted monthly to the Chief Deputy Director and quarterly to the Public Information Officer for inclusion in the Quarterly Board reports.

Finding 2: As part of the annual close-out, the ADC records a journal entry for an estimated amount of crops that have not been harvested as of year-end. ADC management did not review and approve the estimation of crops in progress (CIP), and as a result, CIP was overstated by \$706,317. The amount of inventory recorded for CIP was decreased and expenses were increased by \$706,317 to reflect the misstatement.

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Appendix D (continued)

This lack of internal controls over the CIP calculation and entry in AASIS limits ADC's ability to provide assurance that the estimation of CIP was accurate.

Agency Response: This issue has been addressed with accounting staff at ADC. ADC Accounting procedure requires this process. The Assistant Chief Financial Officer is to review the calculations once completed for accuracy prior to the Journal entry. Any future failure will result in disciplinary action for failure to follow procedures.

Finding 3: ADC Administrative Directive 12-28 requires field and horticultural crops to be offered to as large a number of potential buyers from both the statewide and regional area as practical to generate the best price possible for ADC commodities. All sales or bids should be awarded on the basis of the most cash generated for ADC and in a manner consistent with Arkansas Procurement Laws. Although ALA staff requested documentation on the bids submitted by the non-winning buyers on all crop sales in fiscal year 2015, ADC could not provide this information. Without maintaining complete documentation of sales transactions, the Farm Division limits its ability to support its decisions to ADC management, the Board of Corrections, and others.

Agency Response: ADC recently approved AD 16-07 which superseded AD 15-22 and AD 12-28. The agency is in the process of revising AD 16-07 to include a section on maintaining files with all bid sheets at the Farm Administrator's Office; these files will be maintained until Arkansas Legislative Audit approves their destruction in accordance with record retention policies. (Attachment 2). The entire bid packet including bid sheets will be scanned electronically and emailed to the Director and Chief Deputy Director for the final approval of all sales.

Finding 4: The consignment sheets that ADC used to document and/or summarize the movement of all farm products were not pre-numbered but were generated as needed from a Microsoft Excel template. Pre-numbering or electronically generation of unique numbers that cannot be manipulated by management allows for the determination of a complete population for any given time period.

Agency Response: ADC Farm program will be ordering pre-numbered consignment sheets with a designation coinciding with scale tickets, CS-VP (cold storage vegetable processing), LV (livestock), and Row Crop. These consignment sheets will be kept in a secured area by office personnel and issue as needed. A log will be kept with the date, ticket numbers and who the sheet was issued to and who issued it. Any voided tickets will be recovered, logged and kept on file.

Finding 5: ADC was overcompensated \$20,779 for soybeans and corn and failed to detect the error. Procedures had been implemented to detect these discrepancies by matching ADC weight tickets to the buyer's weight ticket and other documentation provided with the payment; however, ADC personnel implementing the controls did not report these errors.

Appendix D (continued)

Agency Response: ADC will ensure all staff are properly trained and all procedures are followed. Agency procedures did detect the overpayment which was deducted from the next payment from the buyer; however, following cash deposit procedures, the check was deposited and the overpayment had not been adequately documented.

Finding 6: ADC could not provide documentation that procedures were followed regarding the sale of beef cattle. Internal controls implemented by management, as documented by ADC's Administrative Directive 12-28 require the Division's Deputy Director or his or her designee, to determine the need to sell produced livestock, with final approval provided by the ADC Director. ALA staff examination of all beef cattle sales in fiscal year 2015 revealed that no documentation was maintained to support any decisions made by the Division's Deputy Director, nor was there any documentation of approval by the ADC Director. Based on the information provided, all decisions to sell animals were made by the Farm Administrator. By not following the directives and procedures implemented, upper management had limited ability to monitor the Division's beef cattle operations.

These procedures were modified March 30, 2016 with the issuance of Administrative Directive 16-07. This new directive allows the Division's Deputy Director or the Farm Administrator, if designated by the Deputy Director, to make the decisions to sell produced livestock. Notification of sales are provided to the ADC Director and the Board of Corrections' liaison.

Agency Response: Notification of all proposed sales and final sales are being made to the Director, Chief Deputy Director, and the Board of Corrections' liaison. All approvals (typically documented in emails), bids, bid confirmations, and returned bids will be kept in the farm administrator's office. These files will be maintained until approval from Arkansas Legislative Audit for destruction of documents.

Finding 7: Internal control procedures implemented by ADC require that two employees not affiliated with the beef herd monitor and count the animals as they are loaded for transport and then sign off on the consignment sheet to document that the procedure has been completed. These procedures were not followed for two of the six sales in fiscal year 2015. In one instance, there was only one signature, and in the other instance, the two employees who signed off on the consignment sheet were both employed in the beef herd section.

Agency Response: ADC revised beef herd standard operating procedures are attached. All loading tickets will require the signature of two non-beef herd employees and once the cattle reach destination another count will be done by the buyers' group and both tickets will be compared. (Attachment 3)

Finding 8: In fiscal year 2015, the Division sold beef cattle at auction houses in both Arkansas and Oklahoma. Documentation was provided to support the decisions to sell

Appendix D (continued)

cattle in Oklahoma to maximize revenue; however, documentation could not be provided to support the decisions to sell in Arkansas. Division management stated to ALA staff that the cattle sold in Arkansas were cull cattle that did not sell well in Oklahoma; however, without documenting evaluations, the Farm Division limits its ability to support its decisions to ADC management, the Board of Corrections, and others.

Agency Response: ADC cull cattle are marketed through sale barns that provide the best economic return for ADC and all decisions will be documented based on the auction market reports sent out by the USDA and approved by management prior to sale. At times of low beef prices, cull cattle will be processed in the ADC slaughter facility.

If you need any additional information or have questions please contact me at (870) 267-6200 or by email at wendy.kelley@arkansas.gov.

Sincerely,


Wendy Kelley
Director

Attachments

mc/WK



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ADMINISTRATIVE DIRECTIVE

SUBJECT: Items Designated for Farm Commodities Sales

NUMBER: 16-07

SUPERSEDED: 15-22

APPLICABILITY: Director, Appropriate Deputy Director, Farm Administrator, Procurement Manager, Farm Manager of Livestock, and any employee involved in the sale of farm produced commodities.

REFERENCE: AR 113; A.C.A. 12-30-301
et seq., 19-11-201 et seq.

PAGE: 1 of 4

APPROVED: Original Signed by Wendy Kelley **EFFECTIVE DATE:** 03/30/2016

I. PURPOSE:

To provide guidelines to ensure the proper procedures are followed in the sale of farm produced commodities, that the Department seeks the best available markets, and that the sales generate the best financial results for the State.

II. EXPLANATION:

Designated farm products shall be sold in a timely manner using marketing practices and markets available to the Department and generally accepted in the industry applicable to that product.

III. PROCEDURES:

The determination to sell each commodity is based on market conditions at the time of the proposed sale, taking into consideration the costs of storage if not sold, and freight charges for delivery to the required terminal sale if sold, and all other factors relevant to the proposed sale.

All sales and/or bids should be awarded on the basis of the most cash generated for the Department, and in a manner consistent with Arkansas Procurement Laws.

All sale methods should be designed to engage as large a number of potential buyers, both statewide and beyond, as is practical in order to generate the best price possible for Department commodities.

Timely notification by the Farm Administrator of proposed sales, and completed sales, will be made to the Director, the appropriate Deputy Director, the Farm Administrator, the Department Procurement Manager, the designated Board Member, and any other person designated by the Director.

Payment to the Department shall be by certified check, bonded auction payment, or other method as designated by the Farm Administrator. Cash sales must follow 'Control of Cash Receipts' procedures as listed in the Accounting Control Procedures Manual.

All bid records for commodities will be maintained in the Farm Administrator's Office until approval from Arkansas Legislative Audit for destruction.

The Department shall comply with all applicable Arkansas State Procurement Law and Regulations.

A. Field and Horticultural Crops

The term 'Field and Horticultural Crops' includes soybeans, corn, wheat, rice, cotton, and other row crops. These commodities are to be marketed by the Farm Administrator, or other designee of the Director or appropriate Deputy Director. The sale methods used should be those methods generally used in Arkansas agriculture or those recommended by the University of Arkansas Extension Marketing Expert. A partial list of examples of permissible marketing tools include: Basis Contracts; Hedged to Arrive Contracts; Booked (pre-priced) Bushels, Pounds, or Acres; Cash Bids; participation or membership in Marketing Cooperatives such as Riceland Foods, Producers Rice Co-op, Staplcotn, Beltwide Cotton Cooperative, or the like.

B. Other Commodities

The term 'Other Commodities' includes all commodities except Field and Horticultural Crops and Livestock. Other Commodities also include, without limitation, eggs, milk, pecans, spent hens or other poultry, hay, milk, swine, and processed meat.

For each commodity the Farm Administrator, or his designee, shall develop, update, and maintain a list of potential bidders, drawing from reasonably available sources. The terms of the offer for bids shall be set by the Farm

Administrator, or his designee. Using the list of potential bidders for the commodity to be sold, the Farm Administrator, or his designee, shall solicit bids. In addition, the offer for bids shall be posted on the Department's web site at the same time that the offer is communicated to those on the list of potential bidders. The offer shall include a deadline for bids, and the sale will be awarded to the bidder whose bid comports with the terms of the offer and generates the highest price for the commodity as determined by the Farm Administrator.

C. Livestock

The term 'Livestock' includes all bovine. The appropriate Deputy Director, or the Farm Administrator, if designated by the Deputy Director, after consultation with the Farm Manager of Livestock, shall determine the need and timing to sell produced livestock. Notification of the proposed sale will be made to the Director and the Board of Corrections' liaison.

Sales of livestock will be made at licensed and approved livestock auction houses, by competitive bid. If sale through an auction house is unavailable or if sale through other means would more likely generate a higher net return for the Department, the appropriate Deputy Director, or the Farm Administrator if designated by the Deputy Director may propose to sell the livestock by the method regarding the sale of Other Commodities. The Farm Administrator, or his designee, will develop, update, and maintain a list of potential bidders, drawing from reasonable available sources. Using the list of potential bidders for the commodity to be sold, the Farm Administrator, or his designee, shall solicit bids. In addition, the offer for bids shall be posted on the Department web site at the same time that the offer is communicated to those on the list of potential bidders. The offer shall include a deadline for bids, and the sale will be awarded to the bidder whose bid comports with the terms of the offer and generates the highest price for the commodity as determined by the Farm Administrator.

D. Intergovernmental Sales

The term 'Intergovernmental Sales' represents the sales of Department commodities made in accordance with Ark. Code Ann. § 19-11-251. With the prior approval of the Director and Board of Corrections' liaison, the Farm Administrator may engage in external procurement activity (as that term is defined in Ark. Code Ann. § 19-11-206) which includes the sale or exchange of Department commodities. The sale shall be made at a price which

generates the highest net financial gain for the Department as determined by the Farm Administrator.

E. Other Excess Products

The term 'Other Excess Products' represents commodities which cannot be processed and stored for use by the Department. Excess products may be sold to employees or other reputable individuals or companies. The pricing of items to be sold will be set by the Farm Administrator. Tools to assist in setting prices will include the Urner Barry Report, Market Report from the United States Department of Agriculture (USDA) State Contract Pricing, Farmer's Market Prices, comparison of retail grocery market, and the cost of Department production.

F. Opportunity Buys Processed for Resale

Items purchased in bulk and processed by any of the Agriculture Processing facilities may be sold on the open market or to the offices, departments, institutions, agencies or political subdivisions of this state in accordance with all applicable state laws and regulations.

Attachment 2

Inmate Work Hours

Cummins Unit, Tucker Unit, Wrightsville Unit & East Arkansas Regional Unit
Reporting Period: July 2016

Cummins Unit	21243.00
Tucker Unit	1408
Wrightsville Unit	799.46
East Arkansas Regional Unit	654

Remarks: Inmate man-hour report for Cummins (Farm, Veg Processing, Cold Storage and Cummins Creamery)

**Inmate
Vacancy Report**

Cummins Unit, Tucker Unit, Wrightsville Unit & East Arkansas Regional Unit

Total	Vacant	Filled	1/2 Days	All Day	Unit
14	9	5	0	1	East Arkansas
313	145	168	0	23	Cummins, Cold Storage and Vegetable Processing
20	7	13	9		Wrightsville
30	15	15	7	7	Tucker

Rainfall

Cummins Unit, Tucker Unit, Wrightsville Unit & East Arkansas Regional Unit

Reporting Period: January 1 - December 31, 2016

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Cummins Unit	3	4.55	20.75	4	4	2.15	4.6						43.05
Tucker Unit	1.5	2.7	14.3	6	2.8	2	1						30.3
Wrightsville Unit	6	3	4	8	3.5	1.5	7						33
East Arkansas	1	5	13	7.5	3	1.5	4.5						35.5

Unusual Events:

ADC AG Beef Herd SOP

1. The ADC Beef inventory will be maintained in one of the following 5 categories
 1. Bulls- Males purchased or raised for breeding purposes
 2. Cows- Females that have had a calf
 3. Calves-offspring of a cow either male or female up to weaning age
 4. Feeders-Male and female calves that have been weaned. The feeder number will be reported as a group. At the farm level this number will be broken down by steers and heifers.
 5. Replacements-Females that are chosen to remain at ADC as part of the breeding herd. These heifers will remain in this category until they have their first calf and then moved to Cows.
2. The inventory will be maintained at the farm level in a software that can track inventory and generate monthly reports. This software will also be used to track medication records, breeding records, calving history and age.
3. Cattle will be identified by 4 markings
 1. Ear Tag in the left ear of females The tag has a visible number and an EID number to match the EID button. Steer calves this tag will be in the left ear.
 2. EID button placed in the left ear. This button corresponds to the number on the tag.
 3. Bangs tag in the right ear of females. This is a metal clip tag placed by ALPC at the time of vaccination. Records are on file with ALPC.
 4. A metal tag or a matching plastic ear tag in the right ear of the females placed by ADC.

Each of the tag numbers will be maintained in the software for identification purposes. When cattle are inventoried, if a tag is missing the other markings can be cross referenced to identify the cow and a new tag or clip can placed on the cow. Bulls will usually be branded by the farm that sold the bull and a metal clip for identification purposes.

5. Newborn calves will be tagged and entered into the inventory system as soon as possible and reported on the monthly reports.

Appendix D (continued)

Attachment 3

4. All cattle movements will be made by a visual count at the farm of origin, by at least 2 people, one of which will not work directly in the beef division. Consignment sheets will reflect the number of head moving, the farm of origin and the destination farm. A report generated from the inventory software showing cattle ID will accompany the cattle so updates can be made in the inventory software. A similar count will be made at the destination to verify the information on the consignment sheet as accurate. Cattle movements between farms will not require a weigh ticket. If cattle are being sold, the above procedure will be followed at load and weigh tickets will be done. The buyers' paperwork will serve as a check on the number of cattle sold.
5. Actual physical count of cattle inventories will be done by beef herd supervisors 4 times a year. These counts can coincide with management events such as weaning, pregnancy checks, worming and vaccinations. At least one of these counts will be monitored by someone from outside the beef herd unit.
6. Monthly reports showing the inventory will be submitted no later than 3rd of each month to the farm office. This report will be signed by the supervisor of that farm and the Head Farm manager over Livestock. Each office will maintain the inventory board at least weekly to reflect the number of cattle on hand and a location.

