



# **PERFORMANCE AUDIT REPORT**

**Meat Processing Plants:  
Determining What Factors May Have Contributed to  
A Decline in the Number of Small Plants and  
What Impact That Has Had on the State's Economy**

## ***Executive Summary*** ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
November 2002**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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November 20, 2002

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Meat Processing Plants: Determining What Factors May have Contributed To a Decline in the Number of Small Plants And What Impact That Has Had on the State's Economy*.

This report includes recommendations for specific legislative committees to consider the costs and benefits of having a State-operated meat and poultry inspection program, as well as to consider sending a concurrent resolution to Congress in support of lifting the prohibition against the interstate sale of state-inspected meat products.

In addition, we recommended that the Kansas Department of Agriculture summarize and make the results of the USDA's recent Comprehensive Review of Kansas and other states available to the Legislative Post Audit Committee and other interested legislators and committees. We also recommended that the Department review inspection staffing levels, complete the new inspector's handbook, and provide inspection staff with additional training.

We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink, reading "Barbara J. Hinton". The signature is written in a cursive, flowing style with a large initial "B".

Barbara J. Hinton  
Legislative Post Auditor



# EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

## Overview

*Within Kansas, the Department of Agriculture currently is responsible for inspecting 109 meat processing plants—including 88 plants that are called State-inspected (which can sell their products retail within Kansas) and 21 plants that are called custom-exempt (which can't sell their products retail). Both types of plants are typically small.* ..... page 3

*USDA inspectors are responsible for inspecting the 16 federally inspected plants currently operating in the State. Federally inspected plants are typically medium-to-large size, and can ship or sell their meat products across state lines.*

### **Question 1: What Factors May Have Contributed to a Decline in the Number of Small Meat-Processing Plants in the State, and What Impact Has the Decline Had on the State's Economy?**

**Kansas has 63 fewer state-inspected plants now than it did in 1996, a drop of about 42%. The total number of State-inspected plants have dropped from 151 in 1996 to 88 by September 2002. Here's what happened to these 63 plants:** ..... page 7

- 44 plants actually closed
- 24 changed "inspection status" (9 went federal, 12 became custom plants, and 3 moved into grocery stores)
- 5 new plants opened

*Overall, 18 of 22 states that had meat inspection programs in 1996 also had a drop in their number of state-inspected plants as of October 2001. More specifically, 4 of the 5 other states with programs that were similar in size to Kansas' program in 1996 had significant declines in their numbers, ranging from 25% to 56% drops. (There's no information about whether state-inspected meat plants in other states actually closed or whether they simply changed inspection status.)* ..... page 8

*The 3 states with stable or growing numbers of state-inspected plants—New Mexico, South Carolina, and Wisconsin—attributed their experience to their plants providing specialty products or niche marketing. Finally, Minnesota and Missouri both began new state inspection programs after 1996.*

**Many small meat processing plants in Kansas closed because their business was no longer profitable. We contacted owners of 27 of the 44 state-inspected meat processing plants in Kansas that closed** ..... page 10

between 1996 and September 2002. Most said they closed because their businesses were no longer profitable (11 owners) or because of changes they'd have to make to meet federal regulations (7 owners). Officials we talked with in Kansas and other states also cited such reasons as lack of profitability, competition from large retailers, a declining rural economy, and plant owners retiring or dying.

**Small meat processors want more help, but Kansas appears to be doing about as much as other states.** We asked small meat processors in Kansas what kinds of things could help plants stay in business. They mentioned 3 primary factors:

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*Allow state-inspected meat plants to sell products across state lines. Kansas Department of Agriculture officials told us that they support this, but that it's not likely to happen soon because of a recent shut-down of a large, federally inspected ground beef plant in Texas for salmonella contamination, and because there's a "fair amount" of lobbying of federal congressional leaders by large, federally inspected plants.*

*Provide low-cost loans for making needed improvements. Low-cost loans are available in Kansas through the Department of Commerce and Housing. From fiscal years 1996 to 2001, owners of 6 state-inspected plants received low-cost loans totaling \$340,000.*

*More help and cooperation in understanding and complying with regulations. Some plant owners told us that regulations are hard to interpret, and that even inspectors sometime have trouble interpreting them. Kansas likely needs to continue to make efforts to ensure that everyone has the same understanding of what's required.*

**Possible outcomes if Kansas' inspection program were eliminated.** If Kansas decided to eliminate its state-level inspection program, or if the program were determined not to meet federal requirements, the USDA would be responsible for conducting inspections in Kansas. In addition, the state would likely save between \$750,000-\$1.5 million per year. In all, 83% of the plants responding to our survey told us they planned to stay in business even if the state-level inspection program were eliminated. However Department officials have concerns that, under a federally administered program, inspections of custom-exempt plants wouldn't be made a priority, and that Kansas' current state-inspected plants may have difficulty becoming federally inspected.

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**We didn't see other states' officials providing anything different than what Kansas officials were already doing.** We talked with officials in Illinois, Iowa, Minnesota, New Mexico, North Carolina, Ohio, Wisconsin, and South Carolina to find out what they do to help small meat processing plants promote and market their small meat processors' products. Here's what we found:

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*General marketing and promotion support is provided to all value-added food processors, including small meat processors. With the exception of Kansas, all these programs were located within other states' departments of agriculture. Kansas' program is located within the Department of Commerce and Housing. In all states, these programs are general—none were set up specifically to help only meat processors.*

*All states have provided some type of technical training to small plants, either through their regulatory inspection agencies or a state university. Many of these universities, including K-State, continue to offer example forms and generic models to help plants implement the federal regulations, in addition to having consultants.*

*Each state sponsors a trademark program designed to help market products produced in the state. These programs are designed to help consumers recognize and buy products—especially value-added products—produced in their state. In Kansas, this program is known as the 'From the Land of Kansas' program.*

*All states we talked with offer low-cost loans to small businesses that would include small meat processors. None of these moneys are specifically earmarked for small meat processors, and for each state we talked with, including Kansas, these programs were located in an agency other than the Department of Agriculture. In addition, we could tell that in Kansas, information about low-cost loans was made available to small meat processors through the Kansas Meat Processors Association, as well as the Meat Processing News, a newsletter published through K-State's cooperative extension service.*

*Wisconsin, Kansas, and Minnesota are the only states that appeared to make specific efforts to encourage direct marketing of meat products. Through a cooperative effort of the Departments of Commerce and Housing and Agriculture—Kansas has hosted 2 direct marketing seminars which explained how to market meat products directly to consumers. Minnesota recruited small, formerly custom-exempt processors to become regulated under the state's new inspection program by emphasizing a state-inspected plant's ability to direct-market meat products and participate in retail sales.*

**The decline in the number of state-inspected meat processing plants in Kansas has likely had little impact on the State's economy.** *The closure of 44 state-inspected plants since 1996 likely had minimal effect on the State economy as a whole. Beef is a large industry in Kansas, but state-inspected plants generally slaughter less than 1% of the total beef slaughtered Statewide. In addition, the plants provide a limited number of jobs—the typical state-inspected meat plant employs 3-6 people.*

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*The closing of state-inspected meat plants has the greatest impact on small, rural communities. Of the 44 plants that closed in Kansas, 6 were in communities with a population of approximately 1,000 or less, and another 7 were located in communities with a population between 1,300 and 2000. In these smaller communities, the loss of even a small plant will likely have a significant impact because the jobs, wages, and retail sales generated by such a plant will be difficult to replace.*

**Question 1 Conclusion.** *Like most states, Kansas has seen a drop in its number of small meat processing plants. Most of the reasons cited by former plant owners and others in Kansas and other states centered on the age or lack of profitability of these plants, the declining rural economy, and the expense of bringing plants up to standards. Although we couldn't review other states' promotional and marketing efforts in great detail, we didn't see that other states were doing things Kansas wasn't doing to try to keep their small plants alive.* ..... page 18

*The number one thing current plant owners cited that could help them stay in business was being allowed to sell their products across state lines. Even though state-inspected plants must meet regulations that are at least equal to federal requirements, federal law currently prohibits this practice. Everyone we talked with in Kansas supports this change, and it deserves whatever attention and focus the Legislature can bring it. Finally, although eliminating the state-inspection program in favor of federal regulation wasn't the focus of this audit, it was something we were asked to look at. The policy decisions involved in making such a decision can be tough—balancing potential cost savings with the potential loss of even more meat processing plants. Still, it's an area that probably needs to be considered.*

**Question 1 Recommendations.** *We recommended that the House Appropriations and Senate Ways and Means Committees consider weighing the costs and benefits of having a State-operated meat and poultry inspection program, and that the House or Senate Agriculture Committees or other appropriate committees consider sending a concurrent resolution to Congress in support of lifting the ban against interstate sale of state-inspected meat products.* ..... page 18

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**Question 2: Does Kansas Have a Sufficient Number of Inspectors, And Are They Properly Trained and Managed To Ensure that Standards Are Applied Uniformly to all Plants in Kansas?**

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*Kansas and 8 other states began undergoing a federal review in November 2002. The USDA's Food Safety Inspection Service is responsible for monitoring and ensuring that states' meat and poultry inspection programs are at least equal to federal inspection requirements. The full results of these reviews is scheduled to be available in early Spring 2003.* ..... page 19



To avoid duplication of effort with this ongoing federal review, we limited our work in this question to items we understood the federal review won't cover. This audit and the federal report should be read in conjunction to receive a complete picture of the program's performance.

**The current federal review will assess whether Kansas has an adequate number of inspection staff, but current staffing levels appear to be pretty similar to other states.** *The current federal review will assess whether Kansas' program has an adequate number of staff and other resources. However, a 1998 federal review of the program concluded that the Kansas program didn't have enough staff, and Kansas subsequently added staff.*

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*Based on 2001 data, and comparing Kansas' ratios with other states, it appeared to us that Kansas' staffing levels aren't out of line. Federal data show that Kansas had an average of 1 inspector for every 1.9 custom-exempt and state-inspected plants at the end of October 2001. On average, for 9 other states most similar to Kansas in the percentage of their plants that are state-inspected, the average ratio was 1 inspector for every 2.3 plants. If Kansas were staffed at the same level as the average of those states, it would have 9 fewer inspectors. A few survey respondents—both plants and current inspection staff—thought there were either too many inspectors or too many inspection supervisors. Currently, Kansas' inspection program has 1 supervisor for every 5.3 employees.*

**Most inspection staff think they've been adequately trained on regulations, but some said their training hadn't helped them work with plant owners.** *The federal review will assess whether inspection staff have been adequately trained, and will examine training policies, methods, and documentation. To avoid duplicating those efforts, we focused on gathering the opinions current inspection staff. They told us they've had adequate training to help them recognize deficiencies in plants (93% agreed), and that they've received training in a timely manner (83% agreed). However, only about two-thirds of the inspectors responding said their training had helped them know how to deal with plant owners in a professional manner.*

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**Consistency of Inspection and enforcement efforts, especially across the state, likely needs to be improved.** *Federal reviewers will observe inspections across the State to determine whether inspectors have a good understanding of regulations, and whether inspections are being performed in a consistent manner. To complement that review, we surveyed current plant owners and meat inspectors to get their opinions about consistency. About one-third of responding plant owners expressed some concern about laws and regulations not being applied consistently in their plants, and nearly one-half had concerns about regulations not being consistently applied across the state. In addition, only 59% of inspectors responding with an opinion thought enforcement efforts were consistent Statewide.*

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**Question 2 Conclusion.** *Survey results from owners of meat processing plants and the Department’s inspection staff indicate there may be problems in several areas of the meat and poultry inspection program. Concerns were raised about staffing levels, training of inspectors to deal with plant owners, and consistency of inspection and enforcement efforts. The results of the Food Safety Inspection Service’s comprehensive review of Kansas’ inspection program will provide objective information about these areas, and should be reviewed in conjunction with our report and its recommendations.* ..... page 24

**Question 2 Recommendations.** *We recommend that, when the federal review is completed next Spring, the Department should summarize the results that relate to Question 2 of this audit for the Legislative Post Audit Committee and other interested legislators and committees. In addition, we recommend that the Department:* ..... page 24

- ! *review the appropriateness of its staffing and supervision levels*
- ! *complete the new inspector’s handbook in a timely manner and provide training on it to all inspection staff and meat processing plant owners*
- ! *provide additional training to inspection staff to ensure they have the interpersonal skills necessary to interact with plant owners in difficult situations.*

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