



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

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

Legislative Post Audit Committee

Legislative Division of Post Audit

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November 15, 2002

To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations 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.

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 9

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.*

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. page 16

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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?

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.

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. page 19
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.

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. page 22
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.

Consistency of Inspection and enforcement efforts, especially across the state, likely needs to be improved. page 22
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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This audit was conducted by Laurel Murdie, Kate Watson, and Rodney Ferguson. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Murdie at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

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

Legislative Post Audit conducted an audit of meat processing regulation in Kansas in 1998. That audit looked at whether regulations placed on meat processors in Kansas were more stringent or costly than federal regulations require. We concluded Kansas hadn't adopted more stringent requirements than those imposed by the federal government, but found there was a lot of confusion about new requirements and what they would cost. We also found that most plant owners were satisfied with the fairness of inspections, but some expressed concerns about inspections being inconsistent across the State.

In addition, at that time the Department of Commerce and Housing had estimated the new regulations would cause 20-30% of all State-inspected plants to close or to convert their operations to custom slaughter plants. Since 1996, the number of State-inspected meat processing plants has declined by about 42%, from 151 in 1996 to 88 in 2002.

These figures have raised questions about what factors have contributed to the decline, including any significant differences in the promotion and State regulation of meat processing in Kansas compared with other states. This performance audit answers the following questions:

- 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?**
- 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?**

To answer these questions, we reviewed records about the number of meat processing plants in Kansas and other states, and surveyed current State-inspected and custom-exempt meat processing plants here in Kansas. We also surveyed current inspection staff, and interviewed officials at the Department of Agriculture, the Department of Commerce and Housing's Agriculture Products Development Division, the Department of Revenue, the Department of Human Resources, and Kansas State University.

In addition, we interviewed various regulatory, marketing, and meat processing trade association officials from other states with state-level meat inspection programs, including officials from Illinois, Iowa, Minnesota, New Mexico, North Carolina, Ohio, South Carolina, and Wisconsin. We also interviewed a number of former owners of meat processing plants here in Kansas to find out why they closed or switched inspection status.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in Appendix A.

In conducting this audit, we followed all applicable government auditing standards. Our findings begin on page 7, following a brief overview.

Overview of the Kansas Department of Agriculture's Meat Inspection Program

In the late 1960s, the media reported that meat plants across the country were plagued by unsanitary conditions. At that time, meat plants were inspected by individual state inspection programs that were not adequately controlling these conditions.

Prompted by these reports, the federal government passed the Federal Meat Inspection Act and the Poultry Products Inspection Act in 1967 and 1968. The legislation provided for greater uniformity in the regulation of products shipped in interstate, intrastate, and foreign commerce. Both Acts extended federal standards to intrastate operations, and provided for state-federal cooperative inspection programs.

States That Operate an Inspection Program Are Routinely Monitored To Ensure State-Level Requirements Are At Least Equal To the Requirements in Federal Law

About 9,500 plants slaughter and process meat and poultry products across the United States. The Food Safety Inspection Service (FSIS), the public health regulatory division of the U.S. Department of Agriculture, inspects approximately 6,700 of those plants. Those plants account for about 99% of the meat and poultry products produced in this country, and are allowed to trade in interstate commerce. They are governed by regulations at the federal level.

States inspect the remaining 2,800 plants, which account for only 1% of the country's total meat production.

Currently, 27 states including Kansas maintain their own inspection programs. The Food Safety Inspection Service reimburses those states for half the costs of their programs. Plants inspected by state-level inspection staff must follow regulations adopted at the state level, and those regulations must be at least equal to the requirements in the federal law. Plants that are inspected by state programs tend to be relatively small, and some process meat or poultry only for an animal's owner, not for sale. In some states, poultry plants make up a substantial portion of the states' inspection program, whereas Kansas currently only has 2 poultry plants. In comparing Kansas to other states, we considered only red meat plants when assessing the decline in number of plants, but considered all plants when looking at the reasons Kansas plants closed and when evaluating staffing ratios.

Kansas and 8 other states began undergoing a federal review in November 2002. The 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. One way they do this is a comprehensive review (conducted every 1-5 years) in which federal officials visit states to assess such things as compliance with regulations, in-plant conditions, and adequacy of staff and other resources.

In addition to Kansas, the following states are currently being reviewed: Arizona, Illinois, Iowa, North Carolina, South Dakota, Texas, Wisconsin, and 1 other state—yet to be announced. The full results of these reviews will be available in early Spring 2003.

***The Kansas Department
Of Agriculture Is
Responsible For
Inspecting Many Meat
And Poultry Plants***

The Department's Meat and Poultry Inspection Program inspects about 109 plants located in 6 inspection areas across the State. The inspection areas are shown in Graphic I-1 on page 8. Staffing and funding of the program is detailed in the At-a-Glance box on page 6.

The Department is responsible for overseeing 2 of the 3 types of meat processing plants in Kansas. The types of plants and the Department's inspection role for each are described below.

State-inspected plants. These typically are small plants. Their products are labeled as state-inspected, and can be sold only within Kansas; they can't be shipped out-of-state. Animals slaughtered in these plants are inspected before and after slaughter. An inspector must be present during the process to make sure diseased animals aren't processed, and to verify that the plants meet sanitation standards. Program staff inspect the plant and its equipment on a routine basis to ensure that sanitation requirements are met. These inspections may be announced or unannounced and the plant may be inspected before processing operations start, or while processing product.

Custom-exempt plants. These also typically are small plants. They return processed meat to the animal's owner, and their products must be labeled 'Custom-Not for Sale.' The plants are inspected by state-level inspectors only to verify that the plant is registered, that it meets general sanitary conditions, and that meat products aren't contaminated or mislabeled. Inspectors do not need to be present during slaughter.

Federally inspected plants. These typically are medium-to-large plants. They must meet federal inspection requirements and plant construction guidelines, and can ship or sell their product in interstate commerce. The Department has no inspection role with these plants; they are inspected by certified federal inspectors.

Table OV-1 Change in the Number of Plants in Kansas Meat and Poultry Plants				
Plant Type	1996	Sept 2002	# Change	% Change
State-Inspected	151	88	-63	-42%
Custom-Exempt	13	21	+8	62%
Federal	52	59 (a)	+7	13%

Source: Kansas Department of Agriculture
(a) Federal plant information is based on October 1996 and October 2001 data. In addition, we know that during this time 9 federal plants went out of business and 9 state-inspected plants switched to federal status. Federal plant data for October 2002 will be available January 2003.

Most meat processing plants in Kansas are State-inspected, although the number of those plants is declining. *Table OV-1* shows the number of each type of meat and poultry processing plant, and how those numbers have changed from 1996 to 2002. Question 1 of this audit examines the reasons for the decline in the number of state-inspected plants in Kansas.

State-inspected meat processing plants are required to use the Hazard Analysis Critical Control Point (HACCP) System. The HACCP system is a systematic, science-based, food-safety system. It's a preventative approach to producing the safest possible meat products for human consumption. This means that potential biological, physical, or chemical food-safety hazards that exist—wherever they originate—are prevented, eliminated, or reduced.

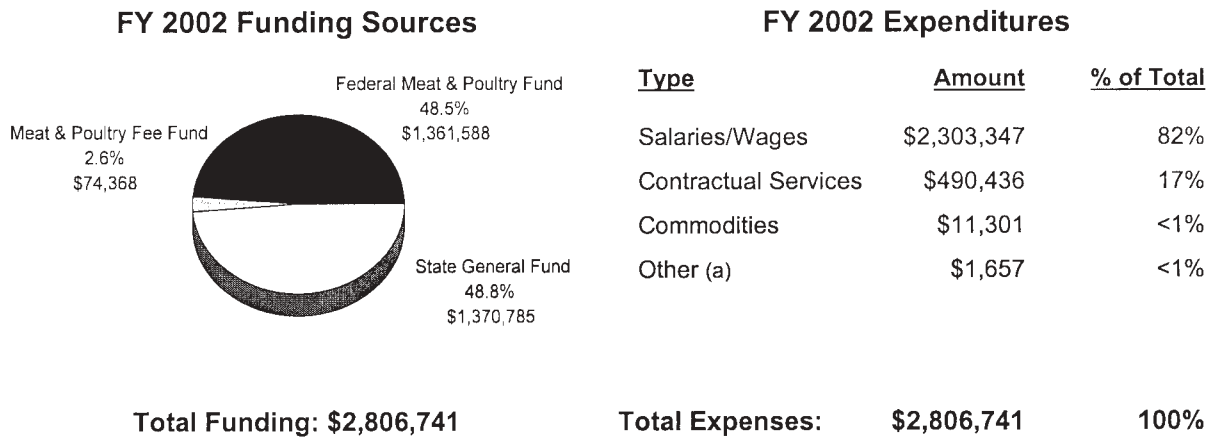
All state-inspected plants are required to develop HACCP plans to identify and document potential hazards in their production process, and in “critical” areas where these problems might occur. In addition, plants have to establish what actions they'd take to prevent and correct these hazards if and when there are problems. Finally, all of this must be documented, in writing, so that Department inspectors can review the HACCP plans. Small plants were required to have HACCP implemented by January 2000.

**The Kansas Department of Agriculture's
Meat & Poultry Inspection Program
AT A GLANCE**

Authority: Created by K.S.A. 65-6a18 et seq., this program is designed to protect Kansas consumers by ensuring that meat and poultry products from state-inspected processing plants are safe and wholesome. As of September 2002, there were 88 state-inspected plants.

Staffing: During fiscal year 2002, the Program had a total of 62 full-time-equivalent positions, and 1 unclassified temporary position. Staff includes the Program manager, veterinarians, field inspectors, a technical assistant, and a training officer. Department officials told us that typically only 58 of the 63 positions are filled due to staffing turn-over.

Budget: The Program's funding comes from 3 sources: State General Fund, Federal Meat & Poultry Fund, and Meat & Poultry Fee Fund, as shown below.



Source: Department of Agriculture Fiscal Year 2002 Budget
(a) This amount was refunded federal funds.

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

Kansas has 63 fewer state-inspected small meat processing plants today than it did in 1996, 44 of which have shut down. The rest switched to federal or custom-exempt inspection status. Most former plant owners we talked with said they closed because their businesses were no longer profitable or because of changes they'd have to make to meet regulations. 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. The negative economic impact of these closings was most likely felt in the smaller, more rural communities where many of these plants were located, rather than at the State level.

Most other states with state-inspection programs have also experienced a similar decline in their numbers of state-inspected meat processing plants. Officials in 2 states where such plants have increased think niche marketing and good customer service have been the key. It appeared that Kansas' efforts to help small meat processors were similar to those in other states, but small plant owners would like to be able to participate in interstate commerce, something federal law now prohibits. These and other findings are discussed more fully in the sections that follow.

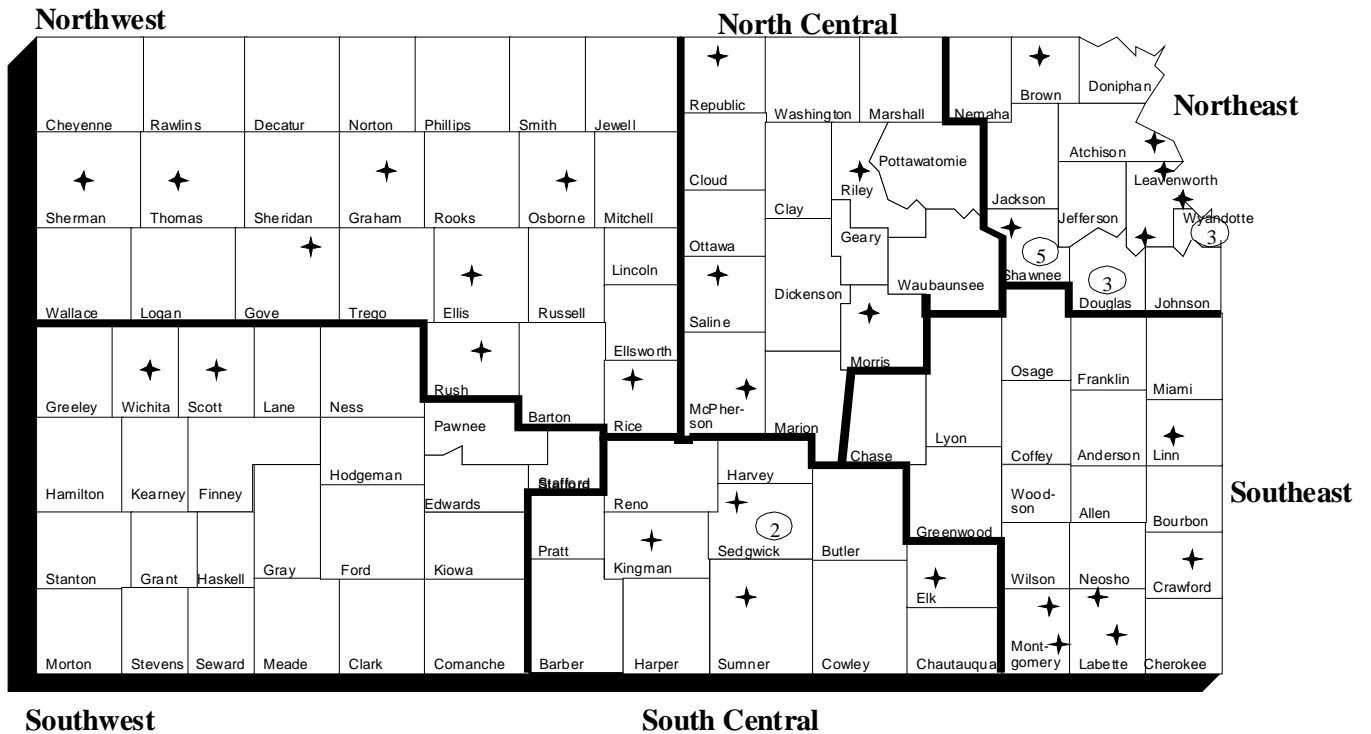
Kansas Has 63 Fewer State-Inspected Plants Now Than It Did in 1996, 44 of Which Have Closed

From 1996 to 2002, the number of state-inspected meat and poultry plants in Kansas dropped from 151 to 88, a decline of 63 plants. As *Table I-1* below shows, most of the decline can be attributed to plants that went out of business, although a sizeable number remained open but changed their inspection status to federally inspected (allowing them to sell their products across state lines) or custom-exempt (no longer selling retail).

Table I-1 Change in Number of State-Inspected Plants in Kansas 1996-2002 Meat and Poultry Plants				
1996	Sept. 2002	# Change	% Change	Explanation of Change in # of Plants
151	88	-63	-42%	- 44 plants closed - 24 changed inspection status: 9 became federal 12 became custom 3 moved processing locations to their grocery stores (regulated by KDHE) + 5 new plants opened - 63 Fewer State plants in 2002 than in 1996
Source: Kansas Department of Agriculture records of state-inspected meat and poultry processing plants.				

Graphic I-1 shows where the 44 closed plants were located throughout Kansas. We didn't note any patterns about where these plants were located.

Graphic I-1
Small Meat Processing Plants That Have Closed



- ★ Towns with only one closed plant
- Towns with more than one closed plant

Most other states also experienced declines in their number of state-inspected meat processing plants. There's no information readily available about whether state-inspected meat plants in other states actually closed or whether they simply changed inspection status, so our discussion of other states includes only the total change in the number of their state-inspected plants from 1996 to 2001. In addition, to make the data comparable with Kansas', we excluded poultry plant information from other state data.

Nationwide, the number of red meat, state-inspected processing plants dropped by 25% from October 1996 to October 2001, the most recent year for which comparative data are available. At the same time, the number of custom-exempt plants increased by 36%, and federally inspected plants decreased by 12%.

In all, 18 of the 22 states that had state-inspection programs in October 1996 and maintained those programs had a drop in the number of state-inspected plants as of October 2001. And 13 of those states saw significant declines, ranging from -25% in Virginia

and Iowa to -97% in West Virginia. Appendix B lists all 27 states that now have state-level inspection programs, and shows how the number of meat processing plants in those states changed from 1996 to 2001.

As *Table I-2* shows, 4 of the 5 other states with programs that were similar in size to Kansas' program in 1996 had significant declines in their numbers of state-inspected plants as of October 2001.

State (a)	October 1996	October 2001	# change	% change
Ohio	151	67	-84	-56%
Illinois	208	102	-106	-51%
Kansas (b)	141	80	-61	-43%
No. Carolina	156	105	-51	-33%
Iowa	136	102	-34	-25%
Wisconsin	155	146	-9	-6%

Source: USDA, Food Safety Inspection Service, 1996 to 2001 data.
 (a) To make Kansas' numbers comparable to data available from other states, we considered only red meat plants when comparing the decline in number of state-inspected plants.
 (b) the numbers shown here for Kansas are as of October 2001, As of September 2002, Kansas had 88 state-inspected plants.

States with a stable or growing number of state-inspected plants attributed their status to specialty products or niche marketing. Only 2 states that operated a meat inspection program in 1996 had an increase in their number of state-inspected meat processing plants as of October 2001. As shown in *Table I-3*, South Carolina and New Mexico both had moderate increases in the number of state-inspected plants.

Regulatory officials from these 2 states and Wisconsin (which had only a small drop in the number of state-inspected plants) credited either speciality products (products not offered through national distribution, such as speciality sausages) or good customer service as the reasons for their programs' performance.

Table I-3 also shows that Missouri and Minnesota both have started state-level inspection programs since 1996. Before that, all plants in these states would have been either federally-inspected or custom-exempt plants.

State (a)	October 1996	October 2001	# change	% change
New Mexico	38	47	+9	24%
So. Carolina	43	50	+7	16%
Minnesota	0 (b)	23	+23	100%
Missouri	0 (b)	4	+4	100%

Source: USDA, Food Safety Inspection Service, 1996 to 2001 data.
 a) To make Kansas' numbers comparable to data available from other states, we considered only red meat plants when comparing the decline in number of state-inspected plants.
 (b) Minnesota started a state-level inspection program in December 1998; Missouri started one in January 2001.

Both Minnesota and Missouri regulatory officials told us their state-inspection programs were started to help expand the sales market for small, custom-exempt plants. Officials from both states told us that before they had state-inspected plants, many custom plants were selling meat products on a retail basis—something only state or federally-inspected plants could do. Once both states started a state-level inspection program, many custom plants switched their inspection status to state-inspected, which allowed them to sell retail meat products within their states' boundaries.

Many Small Meat Processing Plants in Kansas Closed Because Their Business Was No Longer Profitable

To determine why 44 state-inspected meat processing plants in Kansas closed between 1996 and September 2002, we tried to contact the former owners of those plants. We were able to reach 27 of them. Most cited a lack of profitability and the anticipated cost and effort of implementing federal requirements. The primary reasons they gave for closing are summarized below:

11 former plant owners said their business was no longer profitable.

Several said their plants were located in areas where there just weren't enough customers to support the business. Others told us it was very difficult to find employees willing to work in the plant when they could make more money doing less demanding work elsewhere. At least one former owner said the plant's equipment had aged to the point of needing major improvements that wouldn't be cost effective to make.

7 former owners cited the 2000 federal Hazard Analysis and Critical Control Point (HACCP) system as the reason they closed.

To implement this system, plant owners had to identify and document potential hazards in their production process and establish what actions they would take to prevent and correct those hazards. Of the 7 former owners who cited HACCP, 4 said it would have been too expensive to bring the plant's equipment or infrastructure up to standards. Others said the paperwork was simply too much hassle.

5 former owners said they closed because state-level inspectors were either overzealous or inconsistent.

Two of the 5 said inspections were inconsistent from inspector to inspector. For example, one former owner told us an inspector had required him to make a change that was expensive to implement, and then a short while later, a different inspector required something completely the opposite. The other 3 former owners cited such things as feeling unfairly targeted by inspectors, inspectors never being happy with anything done in the plant, or having inspectors in the plant so often (2 to 3 times in one day) that it caused less work to be done.

4 plants closed either because the owner died or had health problems. None of these plants were sold or opened again using a different name.

Kansas officials cited some of the same reasons for plants closing, although none cited federal regulations (HACCP) as having a direct role in causing plants to close. We talked with

Department of Agriculture program staff, officials with the Agricultural Products Development Division of the Department of Commerce and Housing, and a leading meat scientist at Kansas State University. We also sent surveys to 57 current Department of Agriculture inspection staff, 41 of whom responded, for a response rate of 72%.

These officials told us state-inspected plants mostly likely closed because of a combination of factors, including the following:

Plant owners were reaching retirement age. Most inspection staff who responded to our survey said plants most likely closed because plant owners retired or closed their plant for health reasons.

It was no longer profitable for plants to stay in business. Officials told us there are a number of factors that make staying in business unprofitable. Plants have a difficult time finding good laborers who are willing to do hard work at the wages a plant owner can afford to pay. Competition from large meat processors adds to the problem because they can pay better wages and provide benefits.

In addition, Kansas officials noted that small plant owners have difficulty competing with large meat processors and large retail grocery stores, which can provide a variety of products at lower prices. Overhead costs like utilities and the expense of maintaining equipment also contributes to the difficulty of making a profit in this business.

Several plants were older (50 to 60 years old) and needed significant and expensive capital improvements. Officials told us it is extremely difficult to find someone willing to buy old deteriorating plants that are in need of expensive upgrades.

Officials in other states experiencing a decline cited competition from larger retailers, a declining rural economy, and the indirect influence of HACCP requirements as factors in plants closing. We contacted regulatory, state-level promotional/marketing, and trade association officials in Illinois, Iowa, Ohio, North Carolina, and Wisconsin, the 5 states whose programs in 1996 were about the same size as Kansas' program, and whose programs have since experienced a decline in number of plants. Those officials couldn't tell us how much of the decline in their state-inspected plants was due to plants closing versus plants switching to either custom-exempt or federal-inspection status. Still, they expressed the following opinions about the decline:

Competition from large retailers and a declining rural economy may have squeezed small plants out. Officials in these other states told us small plants have a difficult time competing with lower prices from large retailers. In addition, some officials noted that the rural economy has

become less and less vibrant over time, and many small business—not just those directly related to agriculture—are closing.

Many plants owners were nearing retirement age or had health problems, and some plants were outdated and in need of major capital improvements. All regulatory officials we contacted said that, while implementing HACCP was technically challenging for plant owners facing these situations, it didn't create a significant financial burden for plant owners. Trade association officials thought many plant owners were at the point of retiring anyway and just decided to close their plants. They noted some plants had such a serious need for capital improvement that complying with the new requirements would have been too costly, which probably accelerated plant owners' decisions to close.

***Small Meat Processors
Want More Help, But
Kansas Appears To Be
Doing About as Much as
Other States***

We asked small meat processors who are currently in business and former owners of plants that closed what kinds of things would help small meat processing plants stay in business. Below are some of the things they told us would help, followed by a summary of what Kansas has done to provide assistance in these areas.

- **Allow state-inspected plants to sell products across state lines.** Plants owners responding to our survey told us that allowing them to participate in interstate commerce would increase profitability. However, federal law currently doesn't allow state-inspected meat plants to sell their products outside of the State's boundaries. *(16 of the 21 plants responding to this question (76%) said this change would help.)*

It's not likely to happen soon, according to Kansas Department of Agriculture officials: Department officials told us they are completely supportive of state-inspected meat processing plants being able to participate in interstate commerce. Furthermore, they told us they think it is unfair to not allow these plants to participate, because these plants have met Kansas' requirements—which are “equal to” federal requirements—the same requirements that federal plants have to meet in order to ship product interstate.

However, for a couple reasons, Department officials don't believe that state-inspected plants will get to sell their products across state lines any time soon. First, a recent shut-down of a large federally inspected ground beef plant in Texas because of a salmonella outbreak has drawn some supporters away from the issue. In addition, Department officials told us a “fair amount” of lobbying of federal congressional leaders by large, federally inspected plants, also may have caused delays in getting interstate shipment approved for state-inspected plants.

- **Provide low-cost loans for making needed improvements.** Plant owners said more affordable financing would have helped pay for costly upgrades some older plants had to make to comply with HACCP requirements. *(14 of the 21 plants responding to this question (67%) said this change would help.)*

Possible Outcomes if the State's Inspection Program Were Eliminated

States are allowed to have a state-level inspection program as long as it is at least equal to federal requirements. Kansas has chosen to have its own inspection program—the Meat and Poultry Inspection Program—which is currently responsible for 88 state-inspected plants and 21 custom-exempt plants. The Program has 63 full-time-equivalent positions, which includes program managers, veterinarians, and inspectors.

If Kansas decided to eliminate its state-level inspection program, or if the program were determined not to meet federal requirements, the following would happen:

- ! **Federal inspectors would inspect plants in Kansas.** The USDA's Food Safety Inspection Service would become responsible for conducting meat and poultry plant inspections in Kansas. Plants would have to become either federally inspected or custom-exempt, as there would no longer be the option of being "state-inspected."
- ! **The State would save between \$750,000-\$1.5 million.** That's the State share of the Meat and Poultry Inspection Program's costs for fiscal year 2002. The remaining 50% is reimbursed by the federal government.
- ! **Most plants said they would stay in business.** 83% of the plants responding to our survey indicated they planned to stay in business if Kansas' state-level inspection program were eliminated. Of those responding, 48% said they would become federal plants, and 35% said they would become custom-exempt plants. About 17% said they would close.

Although the cost savings from eliminating Kansas' Meat and Poultry Inspection Program may be attractive, Department officials have a number of concerns about eliminating the Program, including the following:

- ! **Custom plants might not be as well inspected under a federal program and, ultimately, might not be as sanitary.** Department officials told us the federal government is suffering from a lack of funding and other resources. If the Food Safety Inspection Service were to take over Kansas' meat inspection program, it's likely that inspections of custom plants wouldn't be a priority, and the sanitary conditions in these plants would decline.
- ! **Many of Kansas' current state-inspected plants may have difficulty becoming federally inspected, and as custom plants they wouldn't be able to make retail sales.** Based on this concern, we asked regional Food Safety Inspection Service officials how difficult it would be for Kansas' current state-inspected plants to become federally inspected. Officials told us many of these plants face at least 1 of 2 obstacles. First, plant owners of small, state-inspected plants in many states, not just Kansas, haven't kept up their plant facilities. To meet federal infrastructure guidelines, these plants would have to make capital improvements. Second, they said many small plant owners, again, not just in Kansas, still don't have a good understanding of or haven't fully embraced federal pathogen reduction initiatives—Hazard Analysis and Critical Control Point (HACCP) Systems or Sanitation Standard Operating Procedures (SOP's).

Low-cost loans appear to be available: We found that, from fiscal years 1996-2001, owners of 6 state-inspected plants received low-cost loans totaling about \$340,000. The loans were obtained through the Kansas Department of Commerce and Housing's Agricultural Products Development Division. Three of the owners used the money to convert their plants to become federally inspected, 2 bought equipment, and one used the money for nutritional testing of the plant's beef products. Division officials said they funded every loan application they received from small meat processors and it appeared to us that they routinely provide information about the low-cost loan program.

- **More help and cooperation from State meat inspectors in understanding and complying with regulations.** Some owners told us the regulations are hard to interpret, and that even inspectors sometimes have trouble interpreting them. They said inspectors need to do a better job coordinating understanding among themselves, as well as helping plant owners to better understand what's required. *(11 of the 21 plants responding to this question (52%) said this change would help.)*

Compared to other states, Kansas appears to have made similar efforts to help state-inspected plants implement HACCP requirements: Small, state-inspected plants were required to have HACCP systems implemented by January 2000. It appears Kansas made efforts similar to other states to help its plants meet this deadline. For example, the Department of Commerce and Housing provided funding for Kansas State University to offer HACCP training to plant owners during fiscal years 1998-2000, spending about \$13,000 for 115 small plant owners to receive the training. In addition, the Department provided funding to Kansas State to make a consultant available to help plants implement their HACCP plans.

However, Kansas likely needs to continue to make efforts to ensure that everyone has the same understanding of what's required. Despite Kansas' efforts to help state-inspected plants implement HACCP systems, the results of our survey of current plants owners and current inspection staff suggest that more needs to be done. Just over half (52%) of the plant owners told us they could use more cooperation from State meat inspectors in understanding and complying with regulations. And nearly half (48%) the inspectors responding told us that plant owners and inspectors don't have the same understanding of requirements.

Department officials told us they are in the process of writing an inspectors' handbook that will soon be made available to inspection staff and plant owners.

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. (As noted earlier, most of these states

experienced a decline in their number of state-inspected meat plants, although 2 states with an increase in plants attributed it to niche marketing and good customer service.) Here's what we found:

- **General marketing and promotional support is provided to all value-added food processors, including small meat processors.** With the exception of Kansas, these programs were all located within other states' departments of agriculture. Kansas' marketing program for value-added food processors—the Agriculture Product Development Division—was part of the Department of Agriculture until July 1996, when the Legislature moved it to the Kansas Department of Commerce and Housing. Although New Mexico's marketing program is located within its agriculture agency, its meat inspection program is located within a separate agency—the livestock board. Through each of these states' marketing programs, all value-added processors can get help in developing marketing plans and promotional materials for their products. 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.** Like Kansas, the other states we contacted also provided technical or financial assistance to state-inspected plants to implement HACCP systems in their plants. For the other states, like Kansas, much of this information and training was provided for or coordinated through the states' university meat science programs. Many of these universities, including K-State, continue to offer example HACCP forms and generic HACCP models (which plants could start with if they were developing a new meat product), in addition to consultants.
- **Each state sponsors a trademark program designed to help market products produced in the state.** All states we talked with had an ongoing marketing campaign designed to help consumers recognize and buy products—especially value-added products—produced in their state. Producers register within their own state and get permission to use the trademark in their marketing and promotional activities. In Kansas, this program is known as the “From the Land of Kansas” program. In Iowa it's called the “Taste of Iowa.” Iowa and Kansas are the only 2 states we talked with that have this program located outside their agriculture departments.
- **All states we talked with offer low cost loans to small businesses that would include small meat processors.** Like Kansas, these other states offered, and continue to offer, low-cost loans to small business owners, which would include small, state-inspected meat processing plants. None of these moneys are specifically ear-marked only for small meat processors. For each state we contacted, including Kansas, these programs were located in an agency other than the Department of Agriculture. In reviewing Kansas' efforts to make loan information available to small meat processing plants, we saw that the information was made available

through the Kansas Meat Processors Association, as well as the *Meat Processing News*, a newsletter published for Kansas meat processors 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.** Kansas—through a cooperative effort of the Departments of Commerce and Housing and Agriculture—have hosted two direct marketing seminars, which helped explain how to market meat products directly to consumers. Minnesota's Department of Agriculture, after having started a state-level inspection program, recruited small, formerly custom-exempt processors to become state-inspected meat processing plants by emphasizing a state-inspected plant's ability to direct-market meat products and participate in retail sales—something that custom plants can't do.

We also contacted meat processors associations in those states. They also offer some type of assistance to meat processors, most often in the form of providing HACCP training or hosting annual conventions. For all states, about half of all inspected processors hold membership in their associations.

The Decline in the Number of State-Inspected Meat Processing Plants Has Likely Had Little Impact on the State's Economy

Although 44 state-inspected plants closed between 1996 and 2002, those closures probably had minimal effect on the State economy as a whole. Beef is a large industry for Kansas, but state-inspected plants are a very small part of it—for each of the years 1996 to 2001, the latest data available—these plants slaughtered less than 1% of total beef slaughtered Statewide.

The closing of state-inspected meat plants has the greatest impact on small, rural communities. There is limited information readily available to detail the effect of small plants' closings. However, of the 44 plants that closed in Kansas from 1996 to 2002, 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 2,000. In these smaller communities, the loss of even a small plant can have a significant impact. Here's how:

- **Jobs and wages.** The typical state-inspected meat processing plant in Kansas has 3 to 6 employees. If a plant of this size closes in a large community, the displaced employees are likely to find other local jobs. In a small, more remote community, those employees may not be able to find other work locally. For example, the last full year of wages for 3 employees that worked at a small, state-inspected meat processing plant in western Kansas was just over \$16,000. The population in this community was only about 800. It likely would be difficult for a community of this size to replace even 3 jobs.

Table I-4 Average Number of Employees and Yearly Wages for 8 State-Inspected Plants That Closed			
Average Number of Employees	Yearly Wages (a)	Location	Population
5	\$15,000	Southeast	254
1	\$9,000	North Central	507
3	\$16,000	Northwest	821
2	\$16,000	Northwest	1,429
2	\$11,000	North Central	1,465
15	\$105,000	Northeast	10,594
2	\$37,000	Southeast	12,031
3	\$57,000	Northwest	19,017

Source: Kansas Department of Human Resources, 1996 to 2001 data.
(a) Wages are total yearly wages reported by this plant for all employees, for the full year before the plant closed.

Table I-4 helps provide a sense of potential local impact by summarizing information on the average number of employees, total yearly wages, location, and community population for 8 plants in smaller communities that closed between 1996 and 2002. We obtained wage and employee information from the Department of Human Resources, however, these numbers should be interpreted with caution. For example, employees may be full-time or part-time, and if the business' owner worked in the establishment but didn't draw a salary, that owner may not be included in either the employee or annual wages figures. Finally, the Department of Human Resources didn't have any wage information about many of the plants that closed.

- **Retail sales.** The loss of purchasing opportunities because of a plant's closing can be significant for small communities, which typically don't have multiple retail stores and wholesale outlets from which consumers can buy processed meat.
- **Suppliers and related transactions.** When a plant closes, local livestock producers who sold animals to the plant have to find alternative markets, which could affect their profit and the distance they have to transport animals. In addition, suppliers of goods or services to the plant (for example, accountants and lawyers) have lost a client.

Conclusion Like most other 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 them 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.

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 to 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.

- Recommendations**
- 1. As they consider ways to address the State's current budget crisis, the House Appropriations and Senate Ways and Means Committees may wish to weigh the costs and benefits of having a State-operated meat and poultry inspection program.** This issue is discussed in more detail on page 13 of this report. Among the issues to consider: eliminating the State program in favor of federal regulation would save the State from \$750,000 to \$1.5 million per year, but about 17% of the small meat processing plants responding to our survey said they'd close if Kansas didn't maintain its own inspection program.
 - 2. To help ensure that State-inspected meat processing plants in Kansas have the same opportunities to sell their meat products across state lines as federally inspected plants have,** the House or Senate Agriculture Committees or other appropriate legislative committees should consider sending a concurrent resolution to Congress in support of lifting the prohibition against the interstate sale of state-inspected meat products.

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?

To avoid duplication of effort with an ongoing federal review that will assess adequacy of staffing levels and training, we limited our work in this question to items 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.**

Appendix C summarizes the specific audit work we did to answer this question, as well steps we took to avoid duplicating the federal review. Based on our work, we found the following:

Kansas' inspection staff levels don't appear to be out-of-line when compared to the average of other states with state-level inspection programs, although a few plant owners told us they have concerns that there may be too many inspection staff. Most inspection staff responding to our survey told us they've been adequately trained in how to recognize problems in plants. However, only about two-thirds of inspection staff said the training they'd received had helped them know how to deal with plant owners in a professional manner. Although most plant owners responding thought regulations were applied consistently in their plant, another third of current plant owners disagreed and some inspectors responding cited the same problem. However, most of the concern was about lack of consistency with inspections across the state. Only 23% of plant owners and 64% of inspectors thought that regulations and polices were consistently applied to plants across the state. In addition, inspectors also cited lack of consistency with enforcement efforts across the state.

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

As part of a comprehensive review of several states' meat and poultry inspection program, officials with the Food Safety Inspection Service of the U.S. Department of Agriculture are in the process of assessing whether Kansas' program has an adequate number of staff and other resources. Their conclusions should be available in early Spring 2003. We didn't try to make this determination, but we did look at staffing figures that are readily available.

A 1998 federal review of the program concluded Kansas didn't have enough staff. It reported the State needed to fill 2 veterinarian vacancies and add 3 new veterinarian positions and 6 new inspector positions. *Profile Box II-1* has additional information about the overall results of that earlier review. Six inspector positions were approved for fiscal year 2000.

Profile Box II-1
Federal Reviews Show Steady Progress in Kansas' Meat Inspection Program

The Food Safety and Inspection Service (FSIS) of the USDA conducts comprehensive reviews of state-inspection programs to determine a state's compliance with its State Performance Plan and to assess the adequacy of the overall inspection program. Below is a summary of the results of Kansas' most recent comprehensive review.

August 1998	FSIS finds the State program to be nearly 'out of control.' If FSIS rated the program at this time, a 'Category 4–Unacceptable' rating would have been issued. Instead, a follow-up review was scheduled.
November 1998	The follow up review showed that program staff had responded to deficiencies promptly and in an appropriate manner. FSIS issued a 'Provisional Category 3–Acceptable' rating to the program, and scheduled a final review for late in 1999.
November 1999	FSIS rated the program 'Category 2–Acceptable' upon final review. Federal staff noted that the Kansas inspection system had been highly successful in upgrading the program, and that "the overall condition of plant facilities, plant sanitation and general housekeeping has consistently and remarkably improved with each follow-

Comparisons of staffing ratios with other states suggests Kansas' current staffing levels aren't out-of-line. Federal data show that, at the end of October 2001, Kansas had an average of 1 inspector for every 1.9 custom and state-inspected plants. On average, other states had one inspector for every 4.5 plants, as shown in *Appendix D*. However, the number of inspectors needed can vary depending on how many of the plants are custom-exempt (which typically receive little state oversight) and how many are state-inspected (which require a more intensive inspection presence).

For the 9 states that were most similar to Kansas in the proportion of custom versus state-inspected plants, the average ratio was 1 inspector to every 2.3 plants. If Kansas were staffed at the same level as the average of those states, it would have 9 fewer inspectors. Other factors that could affect the interpretation of comparative ratios include:

- ! the relative percentage of slaughter versus processing-only plants in each state. Plants that slaughter animals present a higher safety risk and should have a more intensive inspection presence.
- ! vacancies. Department officials say they always have vacancies in inspector positions, which would increase the number of plants inspectors are actually responsible for. We don't know how vacancy rates in other states compare with Kansas.
- ! the location of plants. If plants are spread over a larger geographical area, inspectors spend more time driving.

A few survey respondents thought there were too many inspectors and too many supervisors. During the audit, we surveyed both plant operators and State inspection staff about a variety of issues. We

didn't directly ask either group if they thought staffing was appropriate, but a few of the spontaneous comments we received suggested that staff levels or performance may not be optimal.

Regarding the number of inspectors:

"If there is a budget problem with the state, why would we have as many as 2 to 5 inspectors per day? This doesn't happen all the time, but more often than not. If we close, where are the inspectors going?"

"I think the state meat inspection program is a terrible waste of the taxpayers' money the way it is currently operated. When we first opened our business, we had 1 inspector on the days we slaughtered, which was 2 times per week. Now we have at least 1 inspector in our plant every day, sometimes there are 2, sometimes there are 3 and we still just slaughter 2 times per week. Sometimes they check paperwork, sometimes it looks like they are just putting in their time. They stand around and chit-chat with our employees."

Regarding the number of supervisors:

"The meat inspection [program] has too many people in leadership jobs that are not needed. The Ag II's don't do their job, they are just more supervisors. In each [inspection] area, there are more supervisors than inspectors."

"We have way too many supervisors (there are more supervisors in our area than inspectors). It is a big expense to the program that is not necessary."

Currently, Kansas' inspection program has one supervisor for every 5.3 employees. One program manager, 6 upper-level inspector employees and 3 veterinarians supervise 53 other inspection staff, including 44 Agriculture Inspector I's and II's, 5 animal disposition veterinarians, 2 compliance officers, 1 technical assistant, and 1 training officer. *Profile Box II-2* provides a summary of inspection duties.

Profile Box II-2
A Summary of Inspection Duties of the Kansas Meat and Poultry Inspection Program

Kansas Meat and Poultry Inspection Program staff are responsible for ensuring the food safety of meat products produced in state-inspected and custom-exempt meat processing plants in Kansas. To do this, program staff have a number of inspection duties, each of which are assigned to various staff, including veterinarians, inspection supervisors, or inspectors. The only routinely pre-scheduled inspection duty is the inspection of animals before and after they are slaughtered to ensure that the animal and its product are disease-free and safe for human consumption. Only slaughter plants have such scheduled "kill days."

In addition, program staff inspect the plant and its equipment on a routine basis to ensure that sanitation requirements are met. These inspections may be announced or unannounced, and the plant may be inspected before processing operations start, or while processing the product. Inspections conducted while the plant is in operation are commonly referred to as "patrols." In addition, inspection staff routinely inspect plants to ensure that its employees are following its Hazard Analysis Critical Control Point (HACCP) plans. Each state-inspected plant is required to have at least one plan, written by the plant staff, which describes the preventative and corrective measure the plant's employees will take at each stage of the production process to

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 comprehensive 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 of current inspection staff. Here's what they said:

- ! **Training for recognizing plant deficiencies is adequate.** 93% of the inspectors responding to our survey said the training they received provided enough guidance to correctly recognize and classify problems in plants.
- ! **Training is timely.** 83% of the inspectors who responded said they'd received timely training of changes to laws, regulations, policies.
- ! **Some say training hasn't helped them know how to deal with plant owners.** An inspector's job may frequently involve dealing with angry people and trying to resolve conflicts. Only about two-thirds of inspectors responding said their training had helped them know how to deal with plant owners in a professional manner.

Consistency of Inspection, Especially Across the State, Likely Needs To Be Improved

As part of their comprehensive review, federal officials 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 solicit their opinions about consistency.

Survey respondents expressed some concerns about consistency of inspections within a plant, but even greater concern was raised about the lack of consistency across the State. As shown in *Table II-1* below, 57% of plant owners and 83% of inspectors thought regulations were applied consistently in individual plants or within an inspection area. Noting the difficulty of interpreting the regulations, one plant owner said, "We think our inspectors, each one in his or her own way, do a good job of applying an extremely complex set of laws, regulations, and policies."

Table II-1 Plant Owners' and Inspectors' Opinions About Consistency of Inspections In Individual Plants and Plants Across the State		
Survey Question/Statement	% of Plant Owners Who Agreed or Strongly Agreed	% of Inspectors Who Agreed or Strongly Agreed
Inspectors apply regulations and policies consistently and fairly... ...within my plant ...within my inspection area	57% (27 plants)	83% (33 inspectors)
Inspectors apply regulations and policies consistently and fairly across the State.	23% (9 plants)	64% (21 inspectors)

Source: LPA Survey of current state-inspected plants, custom-exempt meat processing plants, and meat inspectors.

Still, about one-third of current plant owners who responded thought laws and regulations were not being applied consistently at their plant, and made comments

such as, “Each inspector in our facility has a different interpretation of the regulations.”

Few plant owners thought regulations were being applied consistently across the State, and some inspectors shared that concern. Here are some of their comments:

“Things that are expected in my facility as far as sanitation and structural soundness are not being applied at all plants.”

“I am on the border of 2 [inspection] areas and the inspection from one to the other is extremely different, especially in how HACCP and other regulations are interpreted.”

“I’ve been an inspector in 3 different areas of the State. There is little consistency in the way inspectors carry out their duties and in the way some of us write them up.”

“Some of the upper level [inspection staff] aren’t consistent from plant to plant. Consistency needs to be applied across the board. I have seen problems ignored that should be addressed by the inspector time and time again.”

Inspectors had similar concerns about enforcement actions. We also asked for inspectors’ opinions about the consistency of enforcement actions. While 80% thought enforcement was consistent within their inspection area, only 59% thought it was consistent Statewide.

Meat Processing Areas in Grocery Stores and Restaurants Are Not Held to the Same Requirements as Meat Processing Plants

Meat processing plants are subject to more stringent regulation than grocery stores and restaurants, a fact that upsets many of the plant owners who responded to our survey. Here are some examples of their comments:

“The grocery stores in my town see an inspector once a year. We see one every day, if not two or three in one day.”

“I would like to see the State inspectors going to restaurants and grocery stores enforcing half the rules they force on us, yet these people [grocery stores and restaurants] sell a lot more food to the public than we [plants] do, and they have virtually no inspection.”

“One other thing I can’t understand is how come grocery stores and restaurants aren’t inspected as much as meat plants? How come they don’t fall under HACCP? Our grocery stores gets inspected once every 7-8 years.”

“They are [inspecting] at meat processing plants but not at grocery meat counters where inspectors are there only maybe once a year.”

Grocery stores and restaurants in Kansas are regulated by the KDHE, whose policy calls for them to be inspected once per year, the minimum frequency required by State law.

KDHE inspects for compliance with the safety and sanitation standards set out in the Kansas Food Code. When inspecting grocery stores, its inspectors make sure all meat products have been inspected (either USDA or State-inspected). They also check the store’s process for cleaning equipment and the employees’ hygiene process. These establishments aren’t required to have a HACCP system; however, some of the larger grocery store chains have voluntarily adopted and follow a HACCP system.

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 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.

- Recommendations**
1. **When the results of the USDA Comprehensive Review of Kansas and 8 other states are available next Spring**, the Kansas Department of Agriculture should provide a copy to the Legislative Post Audit Committee and to other interested legislators and committees. The Department also should summarize any findings related to those tasks or analyses originally called for in Question 2 of this audit that the federal review planned to cover. Those include the amount and types of training provided to inspectors in Kansas and other states, the checklists or other tools that have been developed to help ensure that inspections are uniform, and the extent to which it appears all inspectors are covering the same things in their inspections. If the federal review identifies any problems or deficiencies, the Department should provide the Committee with its plan and timetable for corrective action.
 2. **To help ensure that its inspection staffing levels are appropriate**, the Department of Agriculture should review its staffing and supervision levels and assignments to address any findings and recommendations from the federal review of field staffing patterns.
 3. **To help ensure that inspection staff and plant owners have the same understanding of inspection regulations and guidelines**, the Department should complete the new inspector's handbook in a timely manner, and should distribute it to all inspection staff and meat processing plant owners. The Department should provide training on the new handbook and guidelines to both inspectors and owners.
 4. **To help ensure that inspection staff have the interpersonal skills necessary to interact with plant owners in difficult situations**, the Department should provide additional training in this area, such as effective conflict management.

APPENDIX A

Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on August 15, 2002. The audit was requested by Representative Daniel Thimesch.

SCOPE STATEMENT

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

Legislative Post Audit conducted an audit of meat processing regulation in Kansas in 1998. That audit looked at whether regulations placed on meat processors in Kansas were more stringent or costly than federal regulations require. The auditors found that Kansas hadn't adopted more stringent requirements than those imposed by the federal government, but there was a lot of confusion about new requirements and what they would cost. They also found that most plant owners were satisfied with the fairness of inspections but some expressed concerns about inspections being inconsistent across the State. At that time, the Department of Commerce and Housing had estimated that the new regulations would cause 20% to 30% of all State-inspected plants to close or to convert their operations to custom slaughter plants.

In recent years, the number of small meat processing plants subject to inspection in Kansas has declined by about 44% from 151 in September 1996 to 85 in September 2001.

Recently legislators have expressed an interest in knowing what factors may have contributed to the decline in the number of small meat-processing plants in the State and what impact that has had on the Kansas economy. In particular, they want to know whether there are significant differences in the promotion and State regulation of meat processing in Kansas compared to other states where the number of such plants are growing. Also, they are concerned about the consistency of inspection and regulation of plants Statewide.

A performance audit in this area would address the following questions:

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? To answer this question, we would interview officials at the Department of Agriculture and the Department of Commerce and Housing to identify what efforts Kansas makes to promote small meat processors, and what steps are taken to regulate the industry. We would attempt to identify a sample of other states that have experienced growth in the number of small meat processors during the past five years, and contact officials in those states to learn about such things as how those states promote and regulate their small meat processors and how strong the industry trade associations are in those states. We would compare what those other states are doing to what Kansas is doing to determine whether there are any readily identifiable aspects of Kansas's program that may be contributing to a decline in the industry. We would supplement this information with surveys of owners of meat processing plants that had gone out

of business in Kansas to determine the reasons why they say they have gone out of business. Also, we would survey current owners of meat processing plants to determine whether any of them plan to close in the near future and what factors may be affecting their decisions about staying in business. If possible, we will gather information about the number of employees, wages paid, sales, sales taxes paid, and the like for the plants that have gone out of business.

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? To answer this question, we would gather information about the number and types of plants in Kansas and the number of inspectors and compare it to similar information from a sample of other states. Also, we would compare information about the amount and types of training provided to inspectors in Kansas and other states. We'd also identify what efforts the various states make to ensure that both the inspectors and plant owners have the same understanding of the regulations. We would survey inspectors to get their opinions about the adequacy and consistency of their training. We would look to see whether the Department has developed checklists or other tools to help ensure uniformity of inspections. We would review a sample of inspection reports and observe some inspections of plants to determine whether it appears that all inspectors are covering the same things. Finally, we would survey some plant owners to determine their opinions about the uniformity of enforcement efforts.

Estimated completion time: 8-10 weeks

**Appendix B, Part I
Changes in Number of Plants in States with Inspection Programs 1996 - 2001
Red Meat Plants Only^(a)**

State	Federal		State		Custom		Total, ALL Plants	
	1996	2001	1996	2001	1996	2001	1996	2001
Alabama	10	9	70	41	20	25	100	75
Arizona	7	7	63	53	27	27	97	87
Delaware	6	6	1	1	3	4	10	11
Georgia (b)	15	13	--	57	--	37	15	107
Illinois	116	113	208	102	15	12	339	227
Indiana	26	19	48	33	20	31	94	83
Iowa	33	43	136	102	105	93	274	238
Kansas	16	16	141	80	12	24	169	120
Louisiana	8	9	84	67	42	36	134	112
Minnesota (b)	27	24	--	23	--	230	27	277
Mississippi	2	0	36	17	18	15	56	32
Missouri (b)	54	46	--	4	--	135	54	185
Montana	10	6	22	21	87	88	119	115
New Mexico	6	2	38	47	13	26	57	75
North Carolina	81	97	156	105	41	32	278	234
North Dakota (b)	14	9	--	4	--	97	14	110
Ohio	41	38	151	67	58	65	250	170
Oklahoma	6	8	63	37	60	59	129	104
South Carolina	10	8	43	50	0	2	53	60
South Dakota (b)	9	8	--	51	--	41	9	100
Texas	49	62	256	162	131	105	436	329
Utah	8	7	29	29	48	42	85	78
Vermont	11	12	16	7	12	21	39	40
Virginia	13	14	24	18	136	99	173	131
West Virginia	6	6	30	1	42	36	78	43
Wisconsin	34	34	155	146	56	51	245	231
Wyoming	1	2	31	27	29	32	61	61

Source: USDA Food Safety & Inspection Service Inspection Program Tables 1996 - 2001. 2002 data won't be available until January 2003.

(a) To make Kansas' numbers comparable to data available from other states, we considered only red meat plants when comparing the decline in number of state-inspected plants.

(b) started state-inspection program after 1996

**Appendix B, Part II
Changes in No. of State-Inspected Plants
in States with Inspection Programs
Red Meat Plants Only^(a)**

State	1996	2001	# change	% change
New Mexico	38	47	9	24%
South Carolina	43	50	7	16%
Utah	29	29	0	0%
Delaware	1	1	0	0%
Montana	22	21	-1	-5%
Wisconsin	155	146	-9	-6%
Wyoming	31	27	-4	-13%
Arizona	63	53	-10	-16%
Louisiana	84	67	-17	-20%
Iowa	136	102	-34	-25%
Virginia	24	18	-6	-25%
Indiana	48	33	-15	-31%
North Carolina	156	105	-51	-33%
Texas	256	162	-94	-37%
Alabama	70	41	-29	-41%
Oklahoma	63	37	-26	-41%
Kansas	141	80	-61	-43%
Illinois	208	102	-106	-51%
Mississippi	36	17	-19	-53%
Ohio	151	67	-84	-56%
Vermont	16	7	-9	-56%
West Virginia	30	1	-29	-97%
Missouri (b)		4		
Minnesota (b)		23		
North Dakota (b)		4		
South Dakota (b)		51		
Georgia (b)		57		

Source: USDA, Food Safety Inspection Service (FSIS), 1996 to 2001 data.

a) To make Kansas' numbers comparable to data available from other states, we considered only red meat plants when comparing the decline in number of state-inspected plants.

(b) started state-inspection program after 1996

Appendix C

Steps Being Taken To Avoid Duplicating Federal Audit Work Being Done of Kansas' State Meat Inspection Program

Among other things, the scope statement approved by the Legislative Post Audit Committee called for Legislative Post Audit **to assess whether Kansas has a sufficient number of inspectors and whether they are properly trained and managed to ensure that standards are applied uniformly to all plants in Kansas**. The USDA Comprehensive Review (scheduled for November 2002; report due in March 2003), will cover many of the same tasks and analyses we originally planned to perform to make this assessment. The following information shows how we will avoid duplicating work being done as part of the federal review:

To answer this question, we originally proposed to do the following (taken from Q2 of the scope statement):	Will the USDA's Comprehensive Review of Kansas' State meat inspection program cover these tasks / analyses?	Audit work LPA will do.
1. Gather information about the number and types of plants in Kansas and the number of inspectors, and compare it to similar information from a sample of other states.	Yes. This information will be gathered for Kansas and a sample of 8 other states (Illinois, Wisconsin, So. Dakota, Texas, No. Carolina, Arizona, Iowa, and 1unnamed).	We had to do this anyway to answer Q1 of the scope statement.
2. Compare information about the amount and types of training provided to inspectors in Kansas and other states.	Yes. Federal officials conduct an annual review of training states require in their State Performance Plan. As part of the Comprehensive Review, federal officials will review actual training documents and assess whether inspection staff are adequately trained for their given duties, and whether they are competent and productive	No additional work needed. Will recommend that the Department of Agriculture pull together a comparative summary for Kansas and the other states when reviews completed.
3. Identify what efforts the various states make to ensure that both the inspectors and plant owners have the same understanding of the regulations.	Yes, at least indirectly. While visiting a sample of plants, the federal reviewers will be looking at how well both inspectors and plant owners demonstrate their level of understanding of the regulations.	We're including a question about this in our surveys of regulatory officials from other states.
4. Survey inspectors to get their opinions about the adequacy and consistency of their training.	No.	We plan to survey inspectors in our audit.
5. See whether the Department has developed checklists or other tools to help ensure uniformity of inspections.	Yes. The federal reviewers will assess the adequacy of Kansas' record-keeping system for inspections, and of its procedures for follow-up and corrective actions.	No additional work needed.
6. Review a sample of inspection reports and observe some inspections of plants to determine whether it appears all inspectors are covering the same things.	Yes. The federal reviewers will conduct both records review and in-plant reviews for a sample of Kansas meat processing plants. During their in-plant visits, they'll observe and assess inspectors' performance and the plants' operations and compliance, and point out notable differences among different regions.	No additional work needed.
7. Survey some plant owners to determine their opinions about the uniformity of enforcement efforts.	No.	We plan to survey plant owners in our audit.

Appendix D
Average Number of Plants Per Inspector
for States with Inspection Programs, FY 2001
State-Inspected and Custom Meat and Poultry Plants

State	# FTE	# Plants (b)	% State-inspected plants	# of Plants per Inspector
Delaware	10.3	7	20%	0.7
Mississippi	48.2	52	53%	1.1
Georgia (c)	87.1	94	61%	1.1
North Carolina (c)	120	144	77%	1.2
Utah	56	83	41%	1.5
Indiana	80	138	52%	1.7
Texas (c)	183	321	61%	1.8
Louisiana (c)	61	108	65%	1.8
Illinois (c)	132.3	237	89%	1.8
South Carolina	54	97	96%	1.8
Alabama (c)	35.4	67	62%	1.9
Kansas	57.2	110	77%	1.9
Oklahoma	57	113	39%	2.0
Ohio	132	283	51%	2.1
Vermont	12.3	30	25%	2.4
West Virginia	22.5	63	3%	2.8
Virginia	45	127	15%	2.8
Arizona (c)	23.8	82	66%	3.4
Wisconsin (c)	93.5	345	74%	3.7
South Dakota	24	92	55%	3.8
New Mexico (c)	17	73	64%	4.3
Iowa	41	206	52%	5.0
Wyoming	9	78	46%	8.7
Missouri	15	139	3%	9.3
Montana	16.5	182	19%	11
Minnesota	16.8	284	9%	16.9
North Dakota	4.3	101	4%	23.5

Average number of plants per 1 inspector for 26 state inspection programs (excludes Kansas): 4.5 average

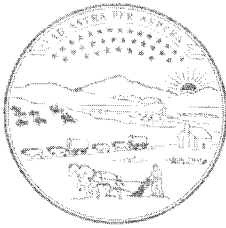
Source: USDA data, federal FY 2001
(a) 2002 data will be available January 2003.
(b) "Plants" include custom and state-inspected meat and poultry plants.
(c) These 9 states were most similar to Kansas in the proportion of custom versus state-inspected plants. The average ratio for these 9 states was 1 inspector to every 2.3 plants.

APPENDIX E

Agency Response

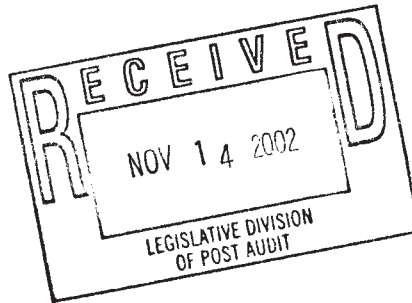
On November 7 and November 8 we provided copies of the draft audit report to the Department of Commerce and Housing and the Department of Agriculture respectively. Their responses are included in this appendix.

After carefully reviewing the Department of Agriculture's response, we made some minor clarifications to the draft audit that didn't affect any of our findings or conclusions.



KANSAS DEPARTMENT
of COMMERCE & HOUSING
AGRICULTURE MARKETING DIVISION

Barbara J. Hinton
Legislative Division of Post Audit
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Dear Ms. Hinton:

Thank you for the opportunity to respond to the Legislative Division of Post Audit's performance audit report on the decline of small meat processing facilities in the state. Question 1: "What Factors May Have Contributed to a Decline in the Number of Small Plants, and What Impact Has that Had on the State's Economy?" dealt with the programs and activities of the Department of Commerce & Housing. The report findings show that the Department has been active in offering financial and technical assistance to state inspected meat processors with regard to the changes necessitated by the 2000 federal Hazard Analysis and Critical Control Point (HACCP) system. The report findings indicate that this agency was very active in providing grants for training and low-cost loans for capital improvements required by HACCP. We do not dispute those findings.

In addition to the findings reported by Post Audit, KDOC&H believes changing consumer demand has significantly impacted state-inspected meat processors. Today's consumer demands a safe, quality, product that is convenient to prepare, creating a strong market for new meat products with an easy, short preparation time. Meat processors have found it difficult to diversify product lines and include more convenient meat items to meet this new demand. KDOC&H will continue to provide assistance in developing and processing new products, as well as market assistance. Our belief that the change in consumer demand is the most salient reason for the decline in the number of small meat processors is supported by the market analyses we shared with the audit staff.

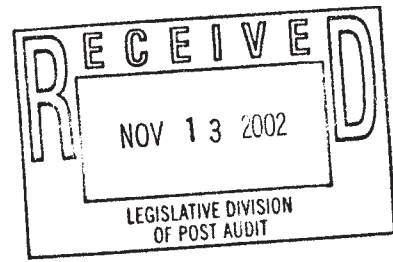
We appreciate the opportunity to respond to this audit report and hope that we were of assistance to the audit staff during its preparation.

Sincerely,

Connie Fischer
Director, Agriculture Products Development Division

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STATE OF KANSAS



KANSAS DEPARTMENT OF AGRICULTURE

November 13, 2002

Ms. Barbara J. Hinton
Legislative Division of Post Audit
800 SW Jackson, Suite 1200
Topeka, KS 66612

Dear Ms. Hinton:

Thank you for the opportunity to review and comment on the audit involving the Kansas Department of Agriculture's Meat and Poultry Inspection program. I appreciate your staff's professionalism while conducting this audit and their strong commitment not to duplicate the federal review conducted last week.

Following are comments regarding three key areas of the audit that either need emphasis, or need more explanation than was given.

Survey Information Subjective. We strongly support the cautionary statement included at the top of page 19 regarding the subjective nature of the information used to answer question two and the need to view it in conjunction with the objective data gathered by USDA's Food Safety Inspection Service (FSIS) veterinarians, who conducted a review of the Kansas Meat and Poultry Inspection program last week. We understand that subjective information is all the audit team was able to report because of the delay acquiring results of the FSIS review. However, it is ill-advised to draw some of the conclusions included in the audit based solely on this subjective information. Current owner opinion suffers from bias and the potential conflict between their business goals and the program's mission to protect public health. Both goals can be accomplished, but nowhere does this occur without some conflict and difference of opinion. It appears, from the survey results, that the Meat and Poultry Inspection program suffers some of the same problems as the U.S. Congress – "my representative is doing a fine job but Congress is doing a poor job."

Staffing Levels. The audit appropriately points out on page 19 that, after the comprehensive review in 1998, USDA insisted that KDA beef up staffing levels. Some increases then were approved by the legislature. It is clear that staffing reductions made in the late 1980s, without a proportional decrease in the number of state plants, were a primary cause of the near revocation of the state program. The initial 1998 review found 80 percent of the plants had major deficiencies that were either likely or certain to result in adulterated product. By late 1999, when a third review was conducted after staff had been added, the program had made dramatic improvement. We are confident last week's FSIS audit will show even more improvement. We firmly believe that reducing staff size without a proportional decrease in the number of fully inspected plants will lead to a result similar to 1998. Further, it is important to note that, on average, only 58 positions of the 63 FTEs authorized for this program are filled throughout the year.

Ms. Barbara J. Hinton
November 13, 2002
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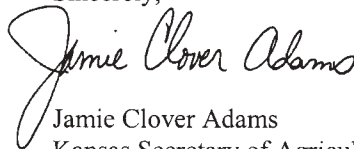
Inspection Consistency. We caution the reader to remember that comments made on program consistency are subjective. No facts were presented to support claims that requirements are not applied consistently. The federal review will provide objective data to support or dispute this claim. In addition to the four federal reviews of this program in the past four years, plus a voluntary peer review, the program conducts regular correlation reviews between districts and debriefing sessions to maintain and improve consistency statewide. We are committed to consistent application of the law across the state and will continue to work to ensure program consistency.

We thank Post Audit staff for recommendations outlined at the end of question two. However, we respectfully request that the Post Audit Committee assign legislative staff to examine our federal review and to compare it with reviews of other states. We do not have staff available to perform this analysis and will likely have less staff by the spring of 2003. We concur with the auditors' suggestion on interpersonal skills training, and we will implement this type of training when our resources allow it. Finally, the inspector handbook project was put on hold because staff needed to focus on the federal review and on providing information for this audit. When time allows, we will again focus on that project.

Finally, we want to share some additional information on abandoning the state program and the ability of current state-inspected plants to move to federal inspection status. It is important to remember that, although 48 percent of the plants said they would go federal, it does not mean that will happen. As the audit pointed out, FSIS must take these plants into the federal inspection system, and they are not required to take every plant that wants federal inspection. Further, although all Florida plants were taken into the federal system in the mid-1990s when that state abandoned its inspection program, results for the industry were not so good in other states. Arkansas, Michigan, Kentucky and Idaho lost nearly two-thirds of their state plants between 1981 and 1991 after their state inspection programs had been abandoned. We also believe that if a number of states abandon their programs at one time, which is a likely scenario given the budget deficits faced by nearly every state, FSIS will be hard pressed to take all state plants, leaving only the custom exempt option.

Again, thank you for the opportunity to comment.

Sincerely,



Jamie Clover Adams
Kansas Secretary of Agriculture

cc: Dr. Evan Sumner, Meat and Poultry
Inspection program manager