PERFORMANCE AUDIT REPORT
Limited-Scope Audit

Animal Health Department: Reviewing Issues Related to a Recent Tracking Technology Project

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
October 2006

07PA01

Legislative Post Audit Committee
Legislative Division of Post Audit

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October 10, 2006

To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations from our completed performance audit, *Animal Health Department: Reviewing Issues Related to a Recent Animal Tracking Technology Project (limited-scope audit)*.

The report includes several recommendations for ensuring that all agencies understand requirements for obtaining approval on information technology projects, and that agencies are aware of federal requirements for grants they administer.

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

READER'S GUIDE

Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.

2. **Conclusion** and **Recommendations -** are referenced in the Executive Summary and appear in a box after each question in the report.

3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

Helpful Tools for Getting to the Detail

- In most cases, an "**At a Glance**" description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

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EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Overview of Selected Animal Identification Activities

The USDA is developing a national system to track animals exposed to disease. *The National Animal Identification System (NAIS) is a U.S. Department of Agriculture (USDA) program to standardize and expand animal identification practices. The program involves three components: identifying the location or "premise" of livestock owners and transporters and registering them, identifying animals, and tracking animals. Legislation passed in 2004 allows the Kansas Livestock Commissioner to cooperate with the USDA in developing a premises registration system for Kansas.*

..... page 3

Since 2004, the Animal Health Department has received three federal grants related to the system for tracking animals exposed to disease. *To further the development and implementation of the system, the USDA offered a series of grants to animal health agencies. In 2004, Kansas was awarded a grant to test the feasibility of using wireless, Internet-based radio devices to monitor the movement of cattle. In 2005, a second grant was awarded to promote premise registration in Kansas. Recently, the Department received a third grant to test where the tags should be placed in cattle's ears, as well as the environmental factors that interfere with reading the tags.*

..... page 3

Question 1: What Breakdowns Occurred That Allowed This Project To Proceed Without the Required Plans and Approvals?

The State has a system of oversight for information technology projects. *State law requires agencies to report all information technology projects costing over $250,000 to the Chief Information Technology Officer (CITO). The Livestock Commissioner told us he didn't request CITO approval for the 2004 animal identification and tracking project because he didn't think the law applied to this type of project. Because the Commissioner didn't report the project to the CITO, it came to her attention by chance.*

..... page 6

The CITO takes a number of steps to help ensure that IT projects are identified. *The CITO learns about 95% of the projects through agencies' three-year management and budget plans. She also takes steps to inform large agencies of the requirements through educational campaigns. In addition, the CITO's office has an informal agreement with Division of Purchases to watch for projects that might need CITO approval. However, Purchasing staff told us they didn't catch this project because it didn't fit the standard profile of an IT project.*

..... page 8

The CITO also has determined that the Department's two other projects are subject to her approval and monitoring. *The CITO's current interpretation of the law is very broad and includes research and development projects. If this interpretation were applied uniformly, it could result in a major increase in the number of projects having to be monitored. Requiring such research and development projects to receive CITO approval could have a number of ramifications for agencies and universities, as well as for the CITO's office and the Joint Committee on Information Technology.* ..... page 9

Question 1 Conclusion ..... page 10

Question 1 Recommendations ..... page 10

Question 2: How Much Has Been Spent on the Project in Direct Payments and In-Kind Contributions, and Are There Any Requirements To Repay Federal Dollars Because the Project Didn't Meet Its Outcomes?

Approximately $500,000 in federal funds was spent on the project, and an estimated $250,000 of in-kind contributions were provided. *The $1.5 million budget for the project included $805,000 in federal funds and $700,000 of in-kind contributions. About 60% of the federal funds were spent, and about 36% of pledged in-kind contributions were provided before the project ended. When the project ended, the Department had drawn $524,000 of the federal award. About $38,000 of that amount was not spent and will be returned to the USDA.* ..... page 12

Most of the federal money was used to develop and purchase equipment. About two-thirds of the federal money was spent for equipment and supplies. *Salaries accounted for about 18% of the spending. Compensation and stipends to cattle owners and truckers for participating in the project accounted for about 8% of the spending.* ..... page 14

The Animal Health Department didn't comply with federal requirements to document in-kind contributions. *The USDA requires documentation of in-kind contributions included in approved budgets. The Livestock Commissioner didn't think the in-kind contributions had to be documented, so he didn't tell grant participants to track and submit proof of those efforts. Most participants hadn't tracked these contributions, but they were able to provide an estimate.* ..... page 14

The project is under final review at the USDA. The Animal Health Department submitted it's final report in June of 2006, but USDA officials haven't closed the project out yet. *Although the project didn't achieve the desired outcomes, USDA officials say the project proved that this technology could work, as a result it's unlikely USDA will ask that any of the spent federal funds be returned. USDA officials did tell us they will ask the Department to return the $38,000 in <u>unspent</u> federal funds.* ..... page 16

Question 2 Conclusion ..... page 16

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APPENDIX A: *Scope Statement* ..... page 18

APPENDIX B: *Agency Responses* ..... page 19

This audit was conducted by Brenda Heafey. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Brenda 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.

Animal Health Department: Reviewing Issues Related to a Recent Animal Tracking Technology Project

State law requires State agencies to notify certain officials and follow specified procedures before beginning a technology project expected to cost $250,000 or more. In June 2004, Legislative Post Audit issued a limited-scope audit reviewing compliance with those project approval and notification requirements. The audit found the Department of Revenue and the executive branch Chief Information Technology Officer (CITO) had not followed all the applicable requirements for a sales tax project that ended up costing about $560,000.

More recently the Legislature learned that the Animal Health Department had not requested CITO approval for a project. In July 2004, the Department applied for and received more than $800,000 in funding from the U.S. Department of Agriculture to develop a system that would allow the tracking of animals through the transport and delivery system to be able to better pinpoint the source of diseases. The project also involved some in-kind contributions from State agencies and other participants. The Department contracted with two private firms to develop the technology that would allow animals to be tracked on a near real-time basis and to maintain the information in a database. When the project was terminated, nearly $500,000 had been spent. The Livestock Commissioner cited lack of participation from truckers and inadequate development time as two of the reasons for the project's failure to achieve its original outcomes. No project plan had been submitted to or approved by the executive branch CITO for this project.

Members of the Joint Committee on Information Technology have raised a number of concerns about this project, including why the project didn't follow the normal approval process, how much had been spent on the project, and whether any federal funds would have to be repaid.

This performance audit answers the following questions:

1. **What breakdowns occurred that allowed this project to proceed without the required plans and approvals?**

2. **How much has been spent on the project in direct payments and in-kind contributions, and are there any requirements to repay federal dollars because the project didn't meet its outcomes?**

To answer these questions, we interviewed the Chief Information Technology Officer and reviewed statutes and policies to determine what constitutes an information technology project, what approvals are required when a State agency plans a project, and what steps the CITO takes to ensure that agencies are aware of approval requirements. We also interviewed the Livestock Commissioner about the project and about why he didn't seek approval from the CITO. In addition, we reviewed the grant application and final report for the project, and reviewed and tested expenditure data for the project. We collected information on in-kind contributions from participants in the project and interviewed officials at the U.S. Department of Agriculture.

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 set forth by the U.S. Government Accountability Office, except that, because of time constraints, we didn't test the in-kind contributions participants reported to us. We have labeled the in-kind amounts as estimates in our report. Our findings begin on page 6, following a brief overview.

Overview of Selected Animal Identification Activities

The USDA Is Developing A National System To Track Animals Exposed to Disease

The National Animal Identification System (NAIS) is a U.S. Department of Agriculture program to standardize and expand animal identification practices to all livestock species. The overall goal of the program is to be able to identify all livestock and premises that have had direct contact with a disease within 48 hours after discovery. Three components must come together for the system to work, as follows:

> *Premise identification and registration* is the first step. The USDA has established national standards for assigning identification numbers to premises (locations) and is working with states to encourage voluntary assignment and registration of those numbers.
>
> *Animal identification* is the next component. Animals are issued a unique identification number before they leave their birth premise and that number is used to record the animal's movement until slaughter. The USDA is currently evaluating different identification technologies.
>
> *Animal tracking* is the final stage of the system. It involves collecting information about animal movement from one premise to another. The information will go into a national database or a private database for use by state, federal and Tribal animal health officials if there is an outbreak of animal disease.

Legislation passed in 2004 allows the Kansas Livestock Commissioner to cooperate with the USDA in developing a premises registration system for Kansas. That legislation authorized the Livestock Commissioner to begin implementing premise registration in Kansas prior to the implementation of the federal program, and authorized the Department to hire two employees to work on premise registration and subsequent animal identification programs. Additional legislation passed in 2005 clarified the voluntary nature of these premise registration, animal identification, and animal tracking systems.

Since 2004, the Animal Health Department Has Received Three Federal Grants Related to the System for Tracking Animals Exposed To Disease

To further the development and implementation of the National Animal Identification System, the USDA has offered a series of grants to animal health agencies across the country. The Kansas Animal Health Department has received the following grants through that program:

- The first grant, awarded in 2004, is the subject of this audit. The purpose of the grant was to test the feasibility of using wireless, Internet-based mobile radio frequency identification device (RFID) technology to monitor the movement of cattle during commercial transportation. The $1.5 million budget for the grant included $805,000 in federal money and $700,986 of in-kind contributions (mostly in the form of staff time) from State agencies, equipment developers, transportation companies, and other participants.

- In 2005, a second grant was awarded. Its purpose was to encourage premise registration in Kansas. The grant called for the Animal Health Department, the Kansas Farm Service Agency, and the KSU Extension Service to promote and assist with premise registration at public events such as fairs and auctions, as well as in public offices. The nearly $750,000 budget for the project includes $685,000 in federal money and $61,200 of in-kind contributions.

- In 2006, the Department received a third grant, this time to test how the placement of RFID ear tags, as well as a variety of environmental factors, affect the readability of those tags in slaughterhouses and at livestock auctions. The nearly $500,000 budget includes $441,430 in federal money and a $30,000 cash match by the Kansas Department of Commerce. Although the Livestock Commissioner is the project administrator, this is essentially a research project being conducted by KSU.

The goal of the 2004 grant was to link several existing technologies to track the movement of livestock in near-real time during commercial transport. Kansas State University and the Animal Health Department developed the proposal, and a KSU faculty member served as project manager. Here's how the project was supposed to work:

> Individual cattle would be tagged with RFID ear tags. As the cattle entered and exited commercial trucks, a tag reader would record a variety of information, such as the premise number, the location according to GPS, date and time, animal identification number, truck number, and destination. Each time an action took place, the information would be transmitted electronically to a database, and a paper copy of the transaction would be printed for the shipper or receiver.

The proposal anticipated the system would be tested on the movement of 20,000 head of cattle, and would involve at least 100 producers, two to five markets, seven to ten feed lots, and ten trucking companies.

The project did not achieve the desired outcomes. The final report describes the following problems encountered during the project:

- The project planned to install reader panels on 30 trucks, but ultimately only nine were installed. Department officials said it was difficult to persuade trucking companies to participate.
- Two companies designed and produced reader panels to mount on trucks, but only one company's design was acceptable to participating truckers.
- Researchers hoped to have data on the movement of 20,000 head of cattle, but only 5,000 were actually tracked, primarily because of the problems noted above.

The project's final report acknowledges numerous equipment problems and the need for extensive training of participating truckers, but concludes that the project demonstrated it is possible to use this technology to track livestock during commercial transportation.

A USDA official said results of the project clearly showed that the concept of reading this type of device while loading and unloading cattle can be accomplished. The USDA hasn't officially closed the project, but in a letter to the Livestock Commissioner a USDA national program manager praised the project extensively, noting its rigorous scientific design and the fact that it was the only project that attempted to address the livestock transportation issue. He pointed out that pilot projects and field trials are intended to describe what works and what doesn't, and said Kansas' project was very productive.

Animal Health Department
AT A GLANCE

Authority: Created by K.S.A. 75-1901

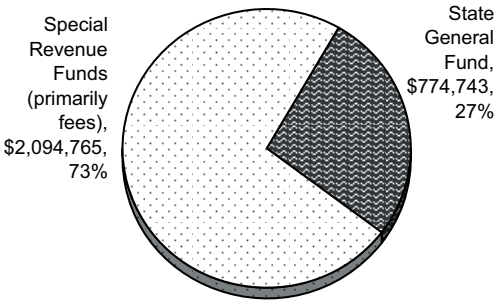
Staffing: The Department has 33 full-time-equivalent positions and one non-FTE unclassified permanent position.

Budget: The major funding comes from fees for brand registration, inspections, and the federal State Disease Control Fund. The Department also receives moneys from General Fund appropriations. For fiscal year 2006, the Department took in and spent about $2.9 million as shown below. Most of these moneys were for salaries, wages, and contractual service providers.

FY 2006 Expenditures

Type	Amount	% of Total
Salaries & Wages	$1,542,070	54%
Contractual Services	$871,075	30%
Transfer	$208,464	7%
Commodities	$124,234	4%
Capital Outlay	$105,465	4%
Aid to Local Government	$18,200	1%
Total Expenses:	**$2,869,508**	**100%**

Sources for Funding for Expenditures



Total Funding: **$2,869,508**

Source: Kansas Legislative Research Department, *Budget Analysis, FY 2007*.
Actual FY 06 expenditures obtained from Animal Health Department.

Question 1: What Breakdowns Occurred That Allowed This Project To Proceed Without the Required Plans and Approvals?

ANSWER IN BRIEF

The State has a system of oversight for information technology projects, but the Animal Health Department didn't get a project involving research and development for the USDA approved, nor did the Agency include the project in its three-year IT plan, because the Livestock Commissioner didn't think the project fit the definition of an IT project that needed to be approved, and it wasn't for an IT system for the agency's own operations. The CITO takes a number of steps to help ensure that IT projects get identified, but most educational efforts are targeted to large agencies with dedicated IT staff. The Division of Purchases helps the CITO identify possible projects, but didn't recognize the Department's purchases of ear tags as being IT-related. The CITO also has determined that the Department's two other projects are subject to her approval and monitoring. Bringing such projects under the IT approval and monitoring process could result in a major increase in the number of projects monitored. These and other findings are described in the sections that follow.

The State Has a System of Oversight for Information Technology Projects

State agencies are required by State law to get approval before beginning an information technology project. A law passed in 1998 requires State agencies to get approval for any projects for major computer, telecommunications, or other information technology improvements with an estimated cumulative cost of $250,000 or more, including expenditures for such things as new or replacement software or hardware; upgrades to existing hardware, software, or systems; or professional services. To receive that approval, agency officials have to submit a project plan to the Chief Information Technology Officer (CITO) for their respective branches of government.

The intent of the law is to help ensure that agencies make reasonable planning efforts, and to provide external oversight through the CITO to prevent projects from going significantly over budget. Once projects are approved, agencies are required to submit regular monitoring reports to the CITO.

There are no specific consequences for agencies that fail to seek or obtain CITO approval, but the Legislature's Joint Committee on Information Technology will question an agency if a project is discovered, and the agency must comply with all remaining oversight requirements.

The Livestock Commissioner didn't request CITO approval for a 2004 animal identification and tracking project because he

didn't think the law applied to this type of project. The Livestock Commissioner told us he didn't submit this project to the CITO because it was a pilot research project being carried out for the U.S. Department of Agriculture (USDA). Its purpose was to determine the feasibility of using wireless, Internet-based technology to track the movement of cattle when they were being shipped commercially. (As described in the Overview, this project involved a grant from the USDA for companies to develop and test such things as panels, hand-held scanners, and other equipment that could read radio frequency ear tags. It had been spearheaded by Kansas State University researchers, but the USDA required that states' animal health departments be involved in such projects.)

The Livestock Commissioner also told us he thought agencies needed CITO approval only for IT projects for their own operations, such as personnel or accounting systems. In addition, he said, only $70,000 of the project budget was for IT-related purchases.

The Animal Health Department also didn't include this project in the agency's Three-Year IT Management and Budget Plan. Department staff told us they thought the intent of that plan was to inform the CITO about information technology projects for their agency, such as a new computer system. This project involved research for the USDA.

This project came to the executive branch CITO's attention only by chance. The Livestock Commissioner presented status reports to the House and Senate Agriculture Committees over the course of the project. A member of the House Agriculture Committee, who is also a member of the Joint Committee on Information Technology, raised questions with legislative staff assigned to the Joint Committee about whether this project needed CITO approval. The staff person notified the CITO in late January 2006 of the possibility of a new technology project at the Animal Health Department.

Staff of the Kansas Information Technology Office contacted the Livestock Commissioner to obtain more information on the project. The Commissioner submitted a project plan, and in late February the CITO notified him that the project required CITO approval and monitoring. Because the project was near completion and would not be proceeding further, the CITO asked only for a final evaluation report, which was to be submitted within six months. The final report was submitted in mid-August.

At that time, the Commissioner also informed the CITO about two other projects that were in progress (which are described in the Overview), and the CITO advised him to submit information about those projects as well.

The CITO Takes a Number of Steps To Help Ensure that IT Projects Are Identified

The executive branch CITO has instituted on-going educational efforts to help agencies identify projects that need approval, but those efforts primarily are targeted to larger State agencies with dedicated IT staff. The CITO said she and staff in the Kansas Information Technology Office, as well as CITOs from the legislative and judicial branches of government, work closely to assist large agencies and continue to provide outreach in the following ways:

- Presentations to the Information Technology Executive Council (ITEC)
- Presentations to the Information Technology Advisory Board (ITAB)
- Orientation provided to agencies' new Chief Information Officers
- Presentations to state agency IT staff
- IT Management and Budget Plan Training
- Presentations to the Kansas Certified Project Management Classes

Typically, staff who attend these types of meetings are from larger agencies. They have a strong interest in the information exchanged because they are accustomed to dealing with IT projects.

The CITO's staff review agencies' three-year IT management and budget plans. All state agencies are required to submit this plan as part of their annual budget. Agencies that plan to start a large IT project in the coming fiscal year must include a budget for the project.

The CITO told us that about 95% of the planned projects come to her attention through these three-year plans. Her staff review the language in the plans to see if anything sounds like a project that would require CITO approval. The plans are meant to assist in coordinating systems and activities for agencies throughout State government.

The Division of Purchases also watches for projects that might need CITO approval. The CITO has an informal agreement with the Division of Purchases to help identify IT projects that don't have CITO approval. The CITO sends a list of approved projects to the Division (as well as to the Divisions of Budget and Accounts and Reports). When Purchasing staff see a request for IT equipment that might rise to the $250,000 level, they consult the list of approved projects. If the project doesn't have approval, they send the request back to the agency and advise them to contact the CITO.

Purchasing staff told us they didn't catch this project because it didn't fit the standard profile of an IT project. The Director

of Purchases told us his staff had seen the contracts submitted by the Animal Health Department, but didn't recognize them as an IT project that might need CITO approval because those contracts were for things like ear tags for cattle. Most of the technology expenditures were made by companies developing equipment for the project or by Kansas State University.

The CITO Also Has Determined That the Department's Two Other Projects Are Subject to Her Approval and Monitoring

As noted in the Overview, besides the project described above, the Animal Health Department has received two additional grants from the USDA—one to promote premise registration across the State (including demonstrations of tracking), and one to test how the readability of radio frequency ear tags is affected by the position of the animal and other environmental factors.

On September 7, the Livestock Commissioner submitted project plans to the CITO for the two remaining projects. On September 18, the CITO informed the Commissioner that both projects were determined to require CITO approval and monitoring.

Based on our review of State law and the grant applications, and on our discussions with the Livestock Commissioner, it wasn't clear to us that these types of projects would necessarily require the CITO's approval under State law. While all three projects can be interpreted as using technology to gather information and transfer that information to a database, their main purpose is to research and test systems for identifying and tracking animals and registering cattle owners' premises for the USDA.

In addition, according to the Livestock Commissioner, the animal identification and tracking system Kansas ultimately uses, when implemented, will not be operated on a computer system based in Kansas or operated by a State agency. It will be operated on databases maintained by private companies and the federal government, and the State will access the information through Internet-based links.

In response to our questions about what qualified a promotional project, designed to encourage cattle owners to register their locations, as an information technology project, the CITO said when her office reviewed the costs directly related to IT-related activities, the amount tripped the required statutory threshold.

The current interpretation of the law is very broad and could, if applied uniformly, result in a major increase in the number of projects having to be monitored. The 1998 law requiring CITO approval of major IT projects was passed in response to legislators'

frustration with State IT projects taking much longer and costing much more than expected. (Our office has done a number of audits of State-agency computer projects in the past that experienced such problems). Most such projects involved State agencies (or hired contractors) developing, implementing, and maintaining computer projects related to those agencies' operations.

The current interpretation appears to significantly expand the number and types of projects that would need to be approved. For example, State universities do a great deal of research and development work involving technology that is sponsored by federal agencies or private companies. But when we reviewed the list of CITO-approved projects, we noted that the projects universities reported involved their administrative systems, not research and development projects.

Requiring such research and development projects to receive CITO approval could have a number of ramifications for agencies and universities, as well as for the CITO's office and the Joint Committee on Information Technology, which would have to review, approve, monitor, and oversee them.

CONCLUSION

The system in place for identifying projects that need CITO approval generally appears to be adequate for most agencies, although greater effort could be made to ensure that smaller agencies are better informed. However, the CITO's decision to include research, development, and testing projects being done for private industry or the federal government in the approval and monitoring process would significantly expand the number and type of projects State agencies and universities would need to submit.

RECOMMENDATIONS

1. To help ensure that all agencies understand the approval and monitoring requirements for information technology projects, the executive branch CITO should broaden its educational outreach efforts to include small agencies that have few, if any, dedicated IT staff. This might take the form of annual reminders to agencies, with clear examples of the types and variety of projects for which approval is required.

2. To help identify information technology projects for which approval has not been requested, the CITO should explore whether staff of the Division of Budget or the Division Accounts and Reports could be of assistance. For example, budget analysts could notify the CITO of any projects they see

in agency budgets that might require CITO approval, even though the project may not have been included in the Three-Year Technology Plan.

3. To help ensure that State law is being interpreted in the way the Legislature intends, the Joint Committee on Information Technology should consider whether research, development, and testing projects of the type reviewed in this audit fall within legislative intent for CITO approval. If not, the Committee should seek to amend State law so that research and development projects that are being performed for outside entities and that will not result in State agencies operating or maintaining computer systems are not inadvertently brought into the approval system. If the Committee determines it is the Legislature's intent to require approval for such projects, it should direct the CITO to provide State agencies and universities with specific guidelines regarding the types of projects they should be reporting.

Question 2: How Much Has Been Spent on the Project in Direct Payments And In-Kind Contributions, and Are There Any Requirements To Repay Federal Dollars Because the Project Didn't Meet Its Outcomes?

ANSWER IN BRIEF: About $750,000 of the $1.5 million budgeted for the project was spent before it terminated. Nearly $500,000 of the expenses were paid with federal money and we estimate that about $250,000 was contributed by participants as in-kind effort. The majority of the federal grant money was spent for developing and purchasing equipment and supplies. The Livestock Commissioner wasn't aware of the federal requirement to document in-kind contributions, and so did not direct participants to track those efforts. It's unlikely the USDA will seek to recover any money based on the project's failure to meet its original outcomes –the project manager for the USDA said the goal for this project was to evaluate whether the technology could work, not to test whether it did work. However, it's likely the USDA will ask the Livestock Commissioner to assemble and submit documentation of in-kind contributions.

Approximately $500,000 In Federal Funds Was Spent On the Project And An Estimated $250,000 of In-Kind Contributions Were Provided

The $1.5 million budget for the project included $805,000 in federal funds from the USDA and in-kind contributions from grant participants of $700,000, but the project terminated before all federal funds were used and before all in-kind contributions were provided. In-kind contributions are expenses that are incurred by the participants that are not reimbursed by grant funds. In this project, they included such things as salaries, travel, training, software and hardware development, technical support, and university overhead.

About 60% of the federal funds were spent, and about 36% of pledged in-kind contributions were provided before the project ended. As mentioned in the overview, the project encountered problems with equipment and was not able to carry out planned activities to the extent intended. To see how much was spent on the project before it ended, and what types of things were purchased, we reviewed State expenditure records. Because most of the participants didn't track their in-kind contributions, the figures we show for in-kind should be viewed as estimates. ***Figure 2-1*** shows the proposed and actual expenditures for the project.

Figure 2-1
Proposed and Actual Expenditures for the Project

	USDA Grant Moneys		In-Kind Contributions	
Participant	**Budgeted**	**Actual**	**Budgeted**	**Actual (1)**
State Agencies				
Animal Health Dept.				
Salaries	$83,185	$37,447		
Equipment & Supplies	$20,715	$30,115		
Travel	$71,100	$8,011		
Printing & Postage		$4,609		
Training & Conferences		$1,538		
Animal Health Dept. Subtotal	**$175,000**	**$81,720**	**$150,000**	**$50,841**
K-State				
Equipment & Supplies		$190,877		
Salaries		$48,130		
Indirect cost		$18,768		
Travel		$4,811		
Printing & Postage		$318		
K-State Subtotal	**$200,000**	**$262,905**	**$170,986**	**$101,512**
Dept. of Agriculture (2)	**$50,000**	**$0**	**$50,000**	**$0**
State Agencies Subtotal	**$425,000**	**$344,625**	**$370,986**	**$152,353**
Transporters				
Compensation & Stipend	$60,000	$17,835		
Transporter Subtotal	**$60,000**	**$17,835**	**$60,000**	**unknown (3)**
Producers				
Compensation & Stipend	$50,000	$21,218		
Training & Conferences		$500		
Producer Subtotal	**$50,000**	**$21,718**	**$70,000**	**$16,568**
Equipment Suppliers				
Equipment & Supplies		$96,979		
Training & Conferences		$4,150		
Supplier Subtotal	**$270,000**	**$101,129**	**$200,000**	**$85,947**
Grand Total	**$805,000**	**$485,306**	**$700,986**	**$254,869**

(1) Actual in-kind contributions are estimated based on what participants reported to Legislative Post Audit.
(2) When the proposal was developed, the Kansas Dept. of Agriculture was going to work with the Animal Health Dept to develop the database to hold premise information. Ultimately the project used the USDA's existing system.
(3) National Carriers was not able to provide information on in-kind contributions.

When the project ended, the Animal Health Department had drawn down only $524,000 of the federal award. About $38,000 of that amount was not spent, and will be returned to the USDA. In addition, the USDA retains $281,000 of the original award that never was drawn down by the Department.

Most of the Federal Money Was Used To Develop and Purchase Equipment

We reviewed expenditure data for the project and grouped it into the categories shown in ***Figure 2-2***.

About two-thirds of the federal money was spent for equipment and supplies. We defined this category very broadly. In addition to the purchase of equipment and supplies, it also includes money paid for developing and designing equipment used in the project. Most of the spending in this category, about 60%, was by Kansas State University which purchased such things as a mobile lab, computers, and software, and paid for web development services and data analysis. The two equipment supply companies accounted for about 31% of the spending in this category. They were paid for designing and manufacturing panels to read the RFID ear tags. The Animal Health Department spent about 9% of the money in this category, mostly for office furniture and computer equipment for a new position funded by the grant, RFID ear tags provided to participating producers, and a 48-foot stock trailer.

Figure 2-2
Actual Project Expeditures By Category

Type of Expense	Amount
Equipment and Supplies	**$317,972**
KSU	$190,877
Equipment Supplier	$96,979
Animal Health Dept	$30,116
Salaries	**$85,577**
Compensation & Stipends	**$39,052**
Indirect cost	**$18,768**
Travel	**$12,822**
Training & Conferences	**$6,188**
Printing & Postage	**$4,927**
Total	**$485,306**

Salaries accounted for about 18% of spending. Kansas State University accounted for more than half of this spending. Over the course of the project, the University paid six researchers, one of whom was the project manager and a key player in designing the project. The Animal Health Department, which hired a full-time person to work on the project, was responsible for the remaining spending in this category.

Compensation and stipends to cattle owners and truckers for participating in the project accounted for about 8% of the spending. For example, transporters were paid to install a reader panel on their trucks and received $50 per load for cattle they transported. Producers were paid to install reader panels on their premises, and received $1 for each head of cattle tagged and $1 for each head recorded at slaughter.

The Animal Health Department Didn't Comply With Federal Requirements To Document In-Kind Contributions

As noted earlier, the approved budget for this project included substantial in-kind contributions, about $700,000 in all, from project participants.

The USDA requires documentation of in-kind contributions included in approved budgets. The agreement between the USDA and the Department for this grant incorporates by reference federal

regulations that require grantees to document in-kind contributions included in the budget and to report them to USDA. We spoke with USDA officials who confirmed that the requirement is applicable to this grant award, and who said they would expect in-kind contributions to be documented to the extent that they can be audited.

The Livestock Commissioner didn't think the in-kind contributions had to be documented, so he didn't tell grant participants to track and submit proof of those efforts. The application for this grant did not require animal health offices to provide a match for federal funds. However, the Livestock Commissioner said he knew grant participants would be incurring expenses beyond what would be reimbursed by the grant, and he thought pledging in-kind would cause the application to be considered more favorably by USDA.

Still, because in-kind contributions didn't have to be included in the budget, the Commissioner didn't think he was required to keep track or report them. As a result, he hadn't documented the efforts of his office, nor had he directed grant participants to do so. In order for us to assess how much in-kind may have been contributed, we contacted participants to see what information they could provide.

Most participants hadn't tracked in-kind contributions, but could provide an estimate. Kansas State University routinely tracks its cost sharing effort on sponsored projects, and provided us with a copy of its itemized in-kind match for this project. The level of information available to us from other participants varied greatly, as follows:

- One development company went back through its job cards to identify direct costs that hadn't been billed to the grant, and provided an estimate of overhead for the project
- The other development company provided a figure for unbilled research and development manpower
- The two companies that worked with producers provided travel expenses and estimates of time spent
- The Livestock Commissioner provided travel and time estimates for time spent out of the office, but indicated those figures also included time spent not just on the grant project, but on the broader topic of animal identification as well. His estimates don't include any time he spent on the project while in the office.
- The company responsible for recruiting truckers didn't track its efforts and the person who worked on the project has left the company. However, a company official said he believes they did incur additional costs that would have been considered an in-kind contribution.

We did not try to audit any of the in-kind information provided to us.

The Project Is Under Final Review at the USDA

The Animal Health Department submitted its final report to USDA in June 2006 but officials at the USDA haven't officially closed out the project. The project coordinator is in the process of assessing the outcomes of the research and making sure contract obligations were met.

It's unlikely the USDA will ask for federal funds to be returned because the project didn't achieve its outcomes. The USDA coordinator for this project stated that Kansas' project was one of the most important projects they funded in 2004. He said the goal of the project was not to prove that the technology would work, but to evaluate if the technology could work, and the project showed that having cattle read as they get on and off trucks is a possible solution. Although no final decisions have been made, based on his comments, we wouldn't expect the USDA to request federal funds to be returned because of project outcomes.

The USDA coordinator said his agency expects states to send back any money that was advanced but not spent, and that it will recoup money that was spent on unallowable items. The Animal Health Department has approximately $38,000 in unspent funds that were drawn down and that are slated to be returned.

USDA officials said they will ask the Department to document the in-kind contributions on this project. The Department has already submitted a final report on the project to the USDA but since the report didn't include actual in-kind efforts, it's likely USDA officials will ask the Department to go back and document these efforts.

CONCLUSION

When this project terminated, only about 60% of the grant funds had been spent and many of the intended outcomes had not been achieved because the lack of sufficient time for research and development resulted in problems with panel readers, and because fewer trucking companies agreed to participate than hoped for. USDA officials still say the project had value for them and they don't expect to ask for money back. That's because this was a research project to test whether a process could work, not a contract to deliver a working system.

The Livestock Commissioner wasn't aware of all the federal requirements associated with a grant of this nature, and as a result, didn't direct participants to track and submit documentation of the in-kind contributions for the project. It's likely USDA officials will ask the Department to submit a follow-up report on the in-kind contributions.

RECOMMENDATIONS

1. The Animal Health Department should ensure that all Department staff are aware of federal requirements for grants their agency administers. As necessary, staff should seek clarification from the agency awarding the grant.

2. The Department should comply with any direction it may receive from the USDA regarding documentation of in-kind contributions for the 2004 project. In addition, agency officials should ensure that in-kind efforts pledged in current and future grants are fully documented. This documentation should be suitable for an audit, including justification or proof that the expense was for the project and wasn't included in reimbursement from the Department.

APPENDIX A
Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on June 20, 2006. The audit was requested by Senator Huelskamp.

Animal Health Department:
Reviewing Issues Related to a Failed Animal Tracking Technology Project

State law contains requirements for State agencies to notify certain officials and follow specified procedures when undertaking a technology project expected to cost $250,000 or more. In June 2004, Legislative Post Audit issued a limited-scope audit reviewing compliance with those project approval and notification requirements. The audit found the Department of Revenue and the Executive Branch Chief Information Technology Officer (CITO) had not followed all the applicable requirements for a sales tax project that ended up costing about $560,000.

A similar situation has occurred more recently with the Animal Health Department. In July 2004, the Department applied for and received more than $800,000 in funding from the U.S. Department of Agriculture to develop a system that would allow the tracking animals through the transport and delivery system to be able to better pinpoint the source diseases. The project also involved some in-kind matching dollars from the State. The Department contracted with two private firms to develop the technology that would allow animals to be tracked on a near real-time basis and to maintain the information in a database. After about $400,000 had been spent, the project was deemed a failure and was stopped. The Livestock Commissioner cited lack of participation from truckers and inadequate development time as two of the reasons for the project's failure. No project plan had been submitted to or approved by the executive branch CITO for this project.

Members of the Joint Committee on Information Technology have raised a number of concerns about this project. Specifically, they want to know why the normal planning and approval processes weren't followed and why the Animal Health Department didn't take advantage of the expertise available at DISC. Also, they would like to know how much money was expended by the State for in-kind match and whether there is a potential that federal moneys may have to be repaid because the project failed.

A performance audit of this topic would answer the following questions:

1. What breakdowns occurred in the approval system that allowed this project to proceed without the required plans and approvals? To answer this question, we would interview the Chief Information Technology officer and officials from the Animal Health Department and review any documents or correspondence to determine what information about the project was made available to whom and when. Through our discussions with the officials from the Animal Health Department we would determine why they didn't submit a technology project plan and obtain approval from the executive branch CITO.

2. How much has been expended on the project in direct payments and in-kind dollars, and are there any requirements to repay federal dollars because the project failed? To answer this question, we would review the Animal Health Department's records of payments to vendors. We would identify which other agencies may have been involved in the project and find out what records they have available regarding in-kind contributions to the project. In addition, we would read the grant agreements and contact USDA officials as needed to determine whether there are any requirements to repay any portion of the moneys that were expended on the project.

   Estimated Time to Complete: 200 hours

APPENDIX B

Agency Response

On September 27, 2006, we provided copies of the draft audit report to the Kansas Animal Health Department and portions of the audit report to the executive branch Chief Information Technology Officer. The responses are included in this Appendix.

The Department and the CITO generally concurred with the report's findings, conclusions, and recommendations. We made minor changes or clarifications to the draft report as a result of the agency's review of the draft report. Those corrections had no effect on our findings or conclusions.

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Livestock Commissioner
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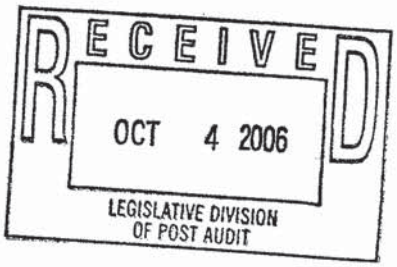


October 3, 2006

Barbara J. Hinton
Legislative Post Auditor
800 SW Jackson, Suite 1200
Topeka, KS 66612-2212

Dear Ms. Hinton,

Thank you for allowing me to review the results of the 200 hour audit on the Animal Transport Pilot Project for the National Animal Identification System. I commend your staff for the professional manner in which they conducted the audit.

The Kansas Animal Health Department concurs with the findings of the audit, its conclusions and recommendations.

Re:

Recommendation #1
I have made the staff of the Animal Health Department aware that we must understand and comply with all aspects of all current and future grants and cooperative agreements with the federal government.

Recommendation #2
I will comply with any direction from USDA regarding documentation of in-kind contributions to the animal transport pilot project. Cooperators in current and future projects will be informed and required to document all in-kind contributions to the individual projects, including justification or proof that said in-kind is an actual expense that is not reimbursed by the department or the grant.

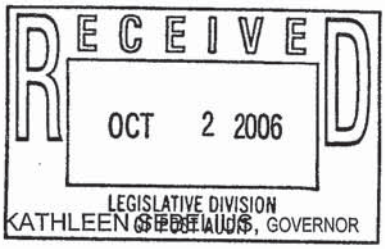
Thank you again for the professional and courteous audit.

Sincerely,

George Teagarden

George Teagarden
Livestock Commissioner

KANSAS



KATHLEEN SEBELIUS, GOVERNOR

CHIEF INFORMATION TECHNOLOGY OFFICER
EXECUTIVE BRANCH
DENISE MOORE

October 2, 2006

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 Southwest Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

Thank you for the opportunity to review and comment on the draft Performance Audit Report of September, 2006 regarding *Animal Health Department: Reviewing Issues Related to a Recent Animal Tracking Technology Project.* In reviewing the report, the following area on page 8 merits clarification.

The CITO Takes a Number of Steps to Help Ensure that IT Projects are Identified: The Division of Purchases also watches for projects that might need CITO approval.

To clarify: The CITO does not send a list of approved projects the Division. The Division of Purchases probably makes a list of approved projects from the copies of approval letters they receive. The CITO provides copies of project approval letters to the Division of Purchases (as well as to the Divisions of Budget and Accounts and Reports).

Recommendations:

The CITO supports Recommendation #1. An ongoing educational campaign and additional assistance to state entities are already in place which includes:

- IT Management and Budget Plan Training and annual official requests for identification of Planned Projects in the instructions for agencies submittal of the Three Year IT Management and Budget Plans (ITMBP)
- Orientation presentation of Senate Bill 5 of 1998 to new CIO's
- Presentations to state entity IT staff
- KITO Website
- Presentations to the Information Technology Executive Council (ITEC)
- Presentations to Information Technology Advisory Board (ITAB)
- Presentations to the Kansas Certified Project Management Classes
- JCIT meetings are promoted and broadcast over the internet

In addition to the annual official requests for planned projects in the Three Year IT Management and Budget Plans, another annual reminder can be sent to agencies calling their attention to Senate Bill 5 of 1998 and to the KITO website for IT project examples.

The CITO supports Recommendation #2. The CITO will explore whether budget analyst staff in the Division of Budget or the Division of Accounts and Reports could be of assistance in identifying information technology projects for which approval has not been requested.

As to Recommendation #3, the CITO agrees. Although Recommendation #3 suggests consideration be given to determine whether research, development, and testing projects fall within legislative intent for CITO approval, it should be noted the law (K.S.A. 75-7201) does not distinguish between the purposes of IT projects upon reaching the $250,000 threshold from any source of funds.

Thank you for the opportunity to respond to this audit report.

Respectfully,

Denise Moore

Denise Moore
Executive Branch CITO