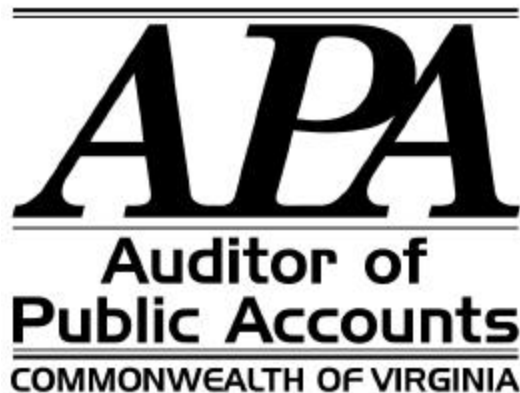


**DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Virginia Department of Agriculture and Consumer Services for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a certain matter that we consider to be a reportable condition; however, we do not consider it a material weakness in internal controls;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate implementation of corrective action on prior audit findings.

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April 12, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Agriculture and Consumer Services**, which includes the **Virginia Agriculture Council**, for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives and Findings

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control structure, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Expenditures
- Revenues
- Accounts Receivable
- System Controls

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures were adequate, had been placed in operation, and were being followed. Our audit included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. The objectives of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion of the internal control or on overall compliance with laws and regulations. Because of inherent limitations in any internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

Audit Conclusions

We found the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving the internal control and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition is discussed in the section entitled "Internal Control Finding and Recommendation." We believe the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 16, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Develop and Implement a Long-Term System Development Strategy

The Department prioritizes system development needs every six months, enabling system personnel to address the most critical issues as they arise. However, the Department does not have an overall strategy focusing on long-term system goals and objectives.

- The Department maintains thirty agency-based system applications on an IBM mainframe computer. Many of these applications are ten to fifteen years old and require reengineering, redesigning, and interfacing. Since the vendors are no longer providing upgrades to these applications, the Department plans to convert applications to a combined mainframe and client-server environment (three-tier). However, the Department lacks adequate resources to develop and implement a long-term systems and maintenance strategy to convert mainframe applications to the three-tier environment in a timely manner.
- The Revenue Management System (RMS) replaced the manual process of billing clients, recording payments, and estimating receivables for two program areas in August 1999. Currently, there are still eighteen program areas that require an automated accounts receivable and billing system; however, due to limited resources, the completion date of RMS implementation is uncertain, resulting in each program area manually tracking account billings and receivables. This manual process is time consuming and requires additional entry of information into the Department's financial system (FINSYS).
- The Animal Industry Services (AIS) Division uses the Laboratory Information Management System (LIMS) as a veterinary medical database to track statewide testing of lab services. LIMS also acts as a billing, recording, and receivables system. However, since LIMS does not interface with FINSYS or RMS, staff must manually enter receivable information into both LIMS and FINSYS, resulting in a duplication of effort.

The Department should continue its efforts to reengineer, redesign, and convert all mainframe applications to a client-server environment, integrate existing accounting systems, and become proactive in its efforts in completing implementation of the Revenue Management System. Further, the Department should identify and obtain the resources necessary to develop and implement an overall strategy for systems development. Department of Technology Planning provides guidance on system development projects.

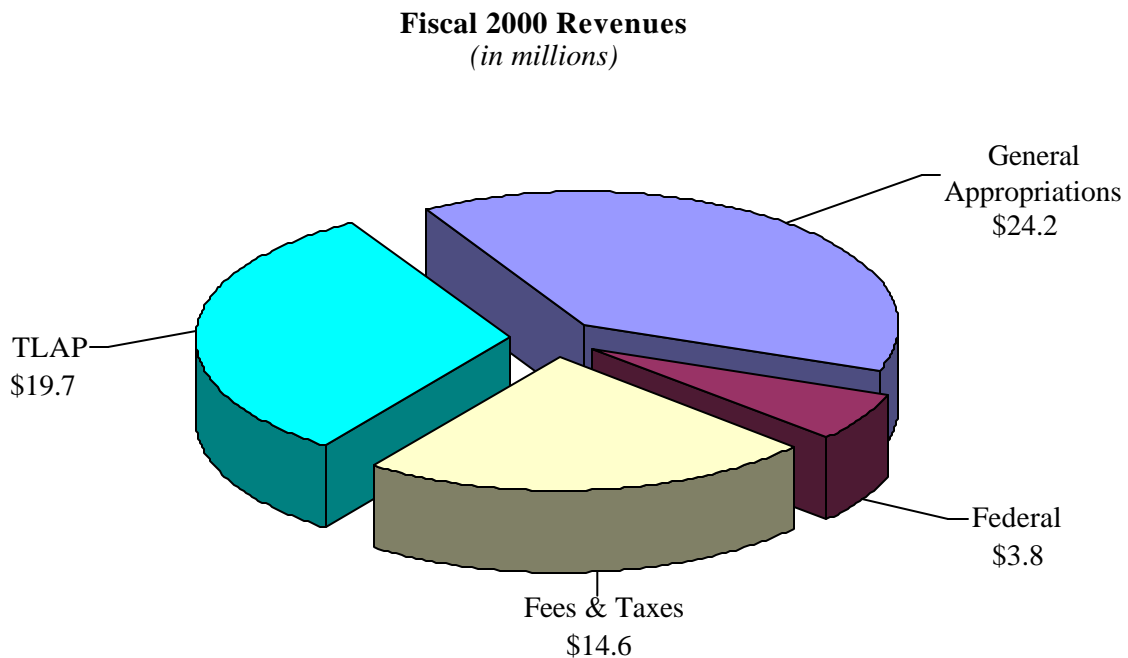
AGENCY HIGHLIGHTS

The Department of Agriculture and Consumer Services promotes the economic growth of Virginia agriculture, enhances the environment, and provides consumer protection. The Department, established in 1877 and located within the Governor's Secretariat of Commerce and Trade, is responsible for over 120 laws and regulations relating to consumer protection and promotion of agriculture. It provides lab, inspection, marketing, and distribution services through facilities located throughout the state and two foreign offices.

The Virginia Agricultural Council finances agricultural research, education, and services. The Council funds projects that find new uses for agricultural products, develops markets for these products, and promotes more efficient and economical methods of agricultural production.

The Department includes the Office of the Commissioner and the Animal Industry Services, Consumer Protection, and Marketing divisions. The Department spent approximately \$42.3 million in fiscal 2000, with approximately \$27 million (64 percent) going to payroll and benefits. The Department employs approximately 500 classified employees and an average of 125 wage employees who work out of field offices. Contractual Services expenses were approximately \$5.7 million, of which \$2.1 million went for building and booth rentals. The Department also spent approximately \$4.8 million for research grants, education, and various statewide marketing projects.

Department revenues totaled approximately \$62.3 million for fiscal 2000, with approximately \$19.7 million related to the Tobacco Loss Assistance Program (TLAP). The U. S. Department of Agriculture (USDA) established this program to provide payments to tobacco growers to offset losses created by the reduced federal quota. The Department received and distributed funds in fiscal 2000 and 2001, respectively.



Commodity Board Oversight

As noted previously, fees and tax assessments amounted to twenty-three percent of total revenue. The Department's Commodity Boards, overseen by the Marketing Division, assessed approximately \$2.7 million in fees and taxes for commodities such as cotton, peanuts, and soybeans. The Commodity Boards promote the sale of Virginia's farm commodities and specific agricultural products through education, marketing, and research. Board memberships are usually comprised of growers and producers of each of these products. Commodity boards serve the following industries.

Apple	Egg	Sheep Industry
Bright Flue-Cured Tobacco	Horse Industry	Small Grains
Cattle Industry	Irish Potato	Soybean
Corn	Marine Products	Sweet Potato
Cotton	Peanut	Winegrowers Advisory
Dark-Fire Tobacco	Pork Industry	

All seventeen Boards hold an average of two meetings per year and present an Annual Report to the Commissioner of Agriculture, outlining Board activity. With the exception of contract boards, which we discuss below, the Department manages all aspects of Board funds. Each Board designates a Program Director who performs all administrative duties and reports to the Department's Special Programs Manager. The Special Programs Manager provides oversight to each board and approves all Board expenses.

Contract Boards, which include the Apple, Cattle Industry, Egg, and Peanut Boards, hold agreements with accompanying associations and councils to manage their funds, and administer, develop, and conduct marketing, consumer education, promotion, and production programs for each specified industry. The Boards make quarterly progress reports to the Department.

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
Richmond, Virginia

BOARD MEMBERS

Bennie J. Etheridge, President

Herbert A. Culpepper, Vice President

Roy E. Seward, Secretary

Frank H. Brumback
William L. Crigler
Grace Flores-Hughes
L. R. Hammock

Charles W. Harris, Jr.
Alexandra Liddy-Bourne
Robert H. Pope
Gatewood Stoneman

Joseph W. Wampler

AGENCY OFFICIALS

J. Carlton Courter, III, Commissioner

Donald G. Blankenship, Deputy Commissioner

