

**VIRGINIA DEPARTMENT OF AGRICULTURE  
AND CONSUMER SERVICES  
AND THE VIRGINIA AGRICULTURAL COUNCIL**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2007**



## **AUDIT SUMMARY**

Our audit of the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

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## AUDIT FINDING AND RECOMMENDATION

### Properly Complete Employment Eligibility Verification Forms

The Department of Agriculture and Consumer Services is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security in its Handbook for Employers. The guidance requires the employee complete, sign, and date Section 1 of the I-9 on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 within three days of employment. Furthermore, Section 2 contains documentation requirements for the employer to complete that verifies the employee's identity and/or employment eligibility.

In our sample of 30 I-9 forms completed during fiscal year 2007, we noted the following noncompliance:

- Eight employees did not properly complete Section 1 by the first date of employment;
- 13 forms did not have Section 2 completed within the designated time frame;
- Three forms did not fulfill the identity and/or employment eligibility documentation requirements of Section 2.

We recommend that Human Resource staff review the resources provided by the U.S. Department of Homeland Security and train employees on the requirements of completing I-9s. The Department of Agriculture and Consumer Services should also develop procedures for continuously reviewing the I-9 process.

## AGENCY HIGHLIGHTS

### Department of Agriculture and Consumer Services

The Department of Agriculture of Consumer Services (the Department) has responsibility for consumer protection and the promotion of agriculture and its products. The Department is located within the Governor's Secretariat of Agriculture and Forestry, and has four divisions: the Commissioner's Office, the Division of Animal and Food Industry Services, the Division of Consumer Protection, and the Division of Marketing.

The Commissioner's Office has eight units to support the operations of the Department: Administrative and Financial Services; Emergency Management Services; Agribusiness Development; the Office of Communication and Promotion; the Human Resource Office; the Office of Internal Audit; the Office of Policy, Planning, and Research; and the Milk Commission. These units provide administrative, technical, and audit support to the Department and promote and facilitate job creation in agricultural enterprises. The division also develops and implements policies, legislation, and regulations for the promotion of agriculture and protection of Virginia consumers, establishes producer pricing for milk, and serves as the Department's primary contact with the news media for all the Department's issues and events.

The Division of Animal and Food Industry Services has four program areas: Veterinary Services, Laboratory Services, Dairy and Food Safety, and Meat and Poultry Services. The division supports Virginia agriculture by performing regulatory and diagnostic testing, providing training for veterinary accreditation, and informing the public of import and export requirements for livestock and poultry to prevent and control the spread of disease. The division also enforces regulations within retail food, food processing, manufacturing and warehouse establishments; and it also protects Virginia's agricultural economic interests and performs food and dairy inspections.

The Division of Consumer Protection also has four program areas: Pesticide Services, Product and Industry Standards, Consumer Affairs, and Plant and Pest Services. The division protects consumers against fraudulent, deceptive, and illegal practices in the marketplace; issues pesticide business licenses; and registers pesticide products. The division also inspects establishments and commodities covered by commodity laws, such as fertilizer.

The Division of Marketing promotes and markets Virginia products including: livestock, poultry, eggs, grains, fruits, vegetables, peanuts, horses, and wines for both domestic and international sales. Functions also include handling U.S. Department of Agriculture (USDA) food distribution and operating the Virginia's Finest Program, which identifies, differentiates, and promotes high quality, Virginia-produced and processed agricultural products. The division has five program areas: Direct Marketing Services, Livestock Marketing, International Marketing, Commodity Services, and Domestic Sales and Market Development. In addition, there are 16 commodity boards that fall under the oversight of this division.

### Commodity Boards

Virginia's agricultural commodity boards work to enhance the sale of Virginia's farm commodities by conducting market development, promotional, educational, and research programs. The individual boards, comprised of producers and agribusiness representatives, collect taxes and fees to pay for programs and projects that benefit their commodities. The Boards may use the revenue they receive for current board administration and programs or accumulate the revenue for future contingencies or projects. Individual boards are responsible for expending and managing such funds in accordance with the Code of Virginia. In addition, each Board is responsible for submitting annual reports to the Department that detail their revenues

and expenses for the year and provide a list of the projects that each board funded and a narrative that details the specifics of that year's production and significant events that impacted the industry.

### Financial Information

The Department receives a combination of General Fund appropriations, special revenue funds, and federal grants, with general funds being the majority of the budget. Special revenue funds are the collection of fees for services such as animal health laboratory services, commercial pesticide applicator licenses, charitable solicitations registrations, and feed inspections. Three federal grants are over half of federal revenues, and they include the Cooperative Agreement with States for Intrastate Meat and Poultry Inspection; Plant and Animal Disease, Pest Control, and Animal Care; and the Cooperative Forestry Assistance grants.

The table below compares the Department's fiscal 2007 budgeted funding to actual expenses by fund.

#### Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund	\$27,815,657	\$31,181,522	\$27,620,630
Special fund*	18,519,186	19,650,941	14,529,705
Federal fund	<u>6,404,695</u>	<u>7,601,940</u>	<u>6,289,347</u>
Totals	<u>\$52,739,538</u>	<u>\$58,434,403</u>	<u>\$48,439,682</u>

\*Includes special revenue, special dedicated revenue, and trust and agency funds

The General fund final budget was increased \$3.5 million as the result of a transfer in from the Department of Conservation and Recreation. The transfer supports the local purchase of the Development Rights Program; however, during fiscal year 2007, due to the lack of finalized plans with localities, the Department made no payments.

The programs that the Special Funds support are heavily subjective to environmental factors such as weather, insects, diseases, and product demand. This creates a challenge when planning to ensure sufficient resources are available when the need arises. For example, the Department increased the budget for the Plant, Pest, and Disease Control program for an anticipated larger gypsy moth population and elevated material cost. However, the program expenses did not rise to the level expected, resulting in actual expenses being less than budgeted. Despite the unpredictable nature of the industry, the Department generates sufficient revenues to cover overall Special Fund expenses.

The Department had \$6.3 million in federal expenses during fiscal 2007 disbursed over 17 federal grants. Over 83 percent of federal expenses are attributable to five federal programs, four administered by the USDA Agriculture and one administered by the Environmental Protection Agency. The USDA grants include cooperative agreements with states for intrastate meat and poultry inspection; cooperative forestry assistance; plant and animal disease, pest control, and animal care; and administrative costs for the Emergency Food Assistance program. The Environmental Protection Agency administers the Performance Partnership grants that carry out enforcement activities and program implementation in the areas of worker protection, certification and training of pesticide applicators, water quality, and endangered species protection.

The Emergency Food Assistance Program (TEFAP) helps supplement the diets of low-income persons by providing them with emergency food and nutrition assistance. The USDA distributes commodity foods to the Department, which in turn distributes the food to selected local agencies, usually food banks, which deliver the food to local soup kitchens and food pantries that serve the public. The USDA bases the amount of food to distribute to the Department on Virginia's low-income and unemployed population. In fiscal 2007, the Department received and distributed food commodities valued slightly more than \$3.7 million.

The Department also distributed over \$21.3 million worth of food commodities through the National School Lunch Program, a federally assisted meal program operating in public and nonprofit private schools, and residential child-care institutions.

The Department's largest expense, 56 percent (\$29.9 million), is for payroll and fringe benefits associated with its approximately 500 employees. Contractual services account for 16 percent (\$8.3 million) of total expenses, which includes contracts for services with various organizations including performance of laboratory studies and research. Another 11 percent (\$5.7 million) of expenses include items such as transfers to the Boards and their private associations. Continuous charges, supplies and materials, equipment, plant and improvements, and property and improvements account for less than 18 percent of all expenses.

The Regional Animal Health Laboratory System (RAHLS) consists of five regional animal health laboratories geographically distributed around the Commonwealth. These facilities are in Harrisonburg, Ivor, Lynchburg, Warrenton, and Wythville, Virginia. The RAHLS offers Animal Diagnostic Testing Services, Animal Regulatory Program Testing Services, and Food Safety Testing Services. General fund appropriations, collection of animal health lab fees, and federal grants fund the laboratories and totaled \$3.8 million. The table below shows the Department's fiscal 2007 laboratory expenses by funding source.

Analysis of Laboratory Expenses by Funding Source for Fiscal Year Ended June 30, 2007

	<u>Expenses</u>	<u>Percent of Total</u>
General fund	\$2,771,224	72%
Special revenue	875,802	23%
Federal	<u>179,760</u>	<u>5%</u>
Total expenditures	<u>\$3,826,786</u>	<u>100%</u>

Virginia Agricultural Council

The General Assembly established the Virginia Agricultural Council (the Council) to provide a mechanism for financing agricultural research, education, and services. The Council is a separate agency; however, the Department provides all personnel and support services to the Council. The Governor appoints 15 of the Council's 18 members. The ex-officio members include the Commissioner of Agriculture and Consumer Services, the Dean of the College of Agriculture and Life Sciences of Virginia Polytechnic Institute and State University, and the Dean for Agriculture and Extension of Virginia State University.

Funding comes from assessments levied on certain agricultural supplies used by farmers. In addition, the Department transfers a percentage of its generated fee revenue into the Virginia Agriculture Foundation Fund. The Code of Virginia charges the Council with the management of the fund. The Council's primary purpose is to expend funds that provide for programs of agricultural research and education and agricultural services. The table below compares the Council's fiscal 2007 budgeted funding to actual expenses.

Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Dedicated Special Revenue	\$490,334	\$490,334	\$406,491





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

June 4, 2007

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of Agriculture and Consumer Services** and the **Virginia Agricultural Council** (Agencies) for the year ended June 30, 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Agencies' internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

The Department of Agriculture and Consumer Services and the Virginia Agricultural Council's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures  
Revenues  
Fixed Assets

Accounts Receivable  
Network Security

We performed audit tests to determine whether the Agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents records, and contracts, and observation of the Agencies' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Our audit also included a follow-up to our Office's Review of Information Security in the Commonwealth of Virginia dated December 2006. The detailed results of our follow-up will be communicated in a separate report.

### Conclusions

We found that the Department of Agriculture and Consumer Services and the Virginia Agricultural Council properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department of Agriculture and Consumer Services and the Virginia Agricultural Council records their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

The Department of Agriculture and Consumer Services has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter and with respect to findings in our Office's Review of Information Security in the Commonwealth of Virginia.

### Exit Conference and Report Distribution

We discussed this report with management on June 23, 2008. Management's response has been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

SLJ/wdh



# COMMONWEALTH of VIRGINIA

*Todd P. Haymore*  
Commissioner

## Department of Agriculture and Consumer Services

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June 25, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
James Monroe Building  
101 North 14<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Mr. Kucharski:

We have reviewed the final audit report for the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2007. We agree that the Agency was not in compliance with the Employment Eligibility Verification Forms (I-9) as required by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. Our Agency understands the seriousness and consequences for non-compliance with completion of these forms and has addressed this as follows:

- Staff responsible for completing and reviewing the I-9 forms have received training on the legal requirements of this form. The training consisted of reviewing a PowerPoint presentation developed by the Department of Accounts and reviewing the U.S. Department of Homeland Security's Handbook for Employers: Instructions for Completing the Form I-9 (USCIS Publication M-274).
- Supervisors and Human Resource staff responsible for completing new hire paperwork will ensure the I-9 form is completed on or before the first day of employment with appropriate documents verified and signed within the required time frame.

We will continue to closely monitor these forms and ensure we are in compliance with the guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security in its Handbook for Employers.

Thank you for the opportunity to respond to the internal control and compliance finding entitled Properly Complete Employment Eligibility Verification Forms.

Sincerely,

Donald G. Blankenship  
Deputy Commissioner

c: The Honorable Robert S. Bloxom  
Secretary of Agriculture and Forestry

Todd P. Haymore, Commissioner

## AGENCY OFFICIALS

### VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

#### BOARD MEMBERS

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Stephen Wolfe

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President, Virginia State University

#### AGENCY OFFICIALS

Donald G. Blankenship  
Deputy Commissioner

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Executive Director

