

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Department of Agriculture and Consumer Services for the year ended June 30, 2001, 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 control; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards.

During last year's fiscal 2000 audit, we reported that the Department did not have an overall strategy that focused on long-term system development. In Fall 2001, the Department developed an Information Technology Strategic Plan that focuses on its long-term system goals and objectives. However, the Department has not had the funding available to address its system problems, although they have begun making improvements. The Department estimates funding requirements to address system problems to be approximately \$1.25 million.

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March 29, 2002

The Honorable Mark R. Warner
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 **Virginia Department of Agriculture and Consumer Services** for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

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, 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
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. 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 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.

The Department'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.

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

Audit Conclusions

We found that 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 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 that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control 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, entitled "Implement a Long-Term System Development Strategy" is described in the section titled "Internal Control Finding and Recommendation." We do not believe that the reportable condition is a material weakness.

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

Although improvements have been made, the Department has not taken adequate corrective action with respect to the previously reported finding entitled "Develop and Implement a Long-Term System Development Strategy." Accordingly, we included this finding in the section entitled "Internal Control Finding and Recommendation."

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 24, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Implement a Long-Term System Development Strategy

During last year's fiscal 2000 audit, we reported that the Department did not have an overall strategy that focused on long-term system goals and objectives. In Fall 2001, the Department developed an Information Technology Strategic Plan that focuses on its long-term system goals and objectives. However, the Department has not had the funding available to address the system problems cited below although they have begun making improvements. The Department estimates funding requirements to address system problems to be approximately \$1.25 million.

- The Department maintains 26 agency-based system applications on an IBM mainframe computer. Many of these applications are over 11 years old and require reengineering, redesigning, and interfacing. Since the vendors no longer provide upgrades to these applications, the Department plans to convert applications to a combined mainframe and client-server environment.
- The Revenue Management System (RMS) replaced the manual process of billing clients, recording payments, and estimating receivables for five program areas since August 1999. Currently, there are still 15 program areas that require an automated accounts receivable and billing system. This manual process is time consuming and requires additional entry of information into the Department's financial system (FINSYS).
- The Animal Industry Services 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. 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.

While we recognize that the Department faces limited resources that will slow its correction of the issues above, we continue to encourage the Department to continue its efforts to reengineer, redesign, and integrate existing accounting systems, and remain proactive in its efforts to implement the Revenue Management System.

AGENCY HIGHLIGHTS

The Virginia Department of Agriculture and Consumer Services, established in 1877, is responsible for over 60 laws and more than 70 regulations relating to consumer protection and promotion of agriculture. The Department, which is located within the Governor's Secretariat of Commerce and Trade, is organized into four divisions: the Commissioner's Office and Administration, the Division of Animal Industry Services, the Division of Consumer Protection, and the Division of Marketing.

The Commissioner's Office and Administration is comprised of six units to support the operations of the agency: Administration, Agricultural Development Services, the Office of Communication and Media Relations, Human Resource Office, the Office of Internal Audit, and the Office of Policy, Planning, and Research. These units perform a wide range of functions, including providing administrative, technical, and audit support to the Department, and promoting and facilitating job creation in agriculture enterprises. The Division also develops and implements policies, legislation, and regulations for the promotion of agriculture and protection of Virginia consumers, and serves as the Department's primary contact with the news media for all agency issues and events.

The Division of Animal Industry Services 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 of Consumer Protection protects consumers against fraudulent, deceptive, and illegal practices in the marketplace; issues pesticide business licenses and registers pesticide products; enforces regulations within retail food, food processing, manufacturing, and warehouse establishments; protects Virginia's agricultural economic interests, and performs food inspections. The Division also inspects establishments and commodities covered by commodity laws, such as fertilizer. The Division is comprised of five offices: Consumer Affairs, Food Safety, Pesticide Services, Plant and Pest Services, and Product and Industry Standards.

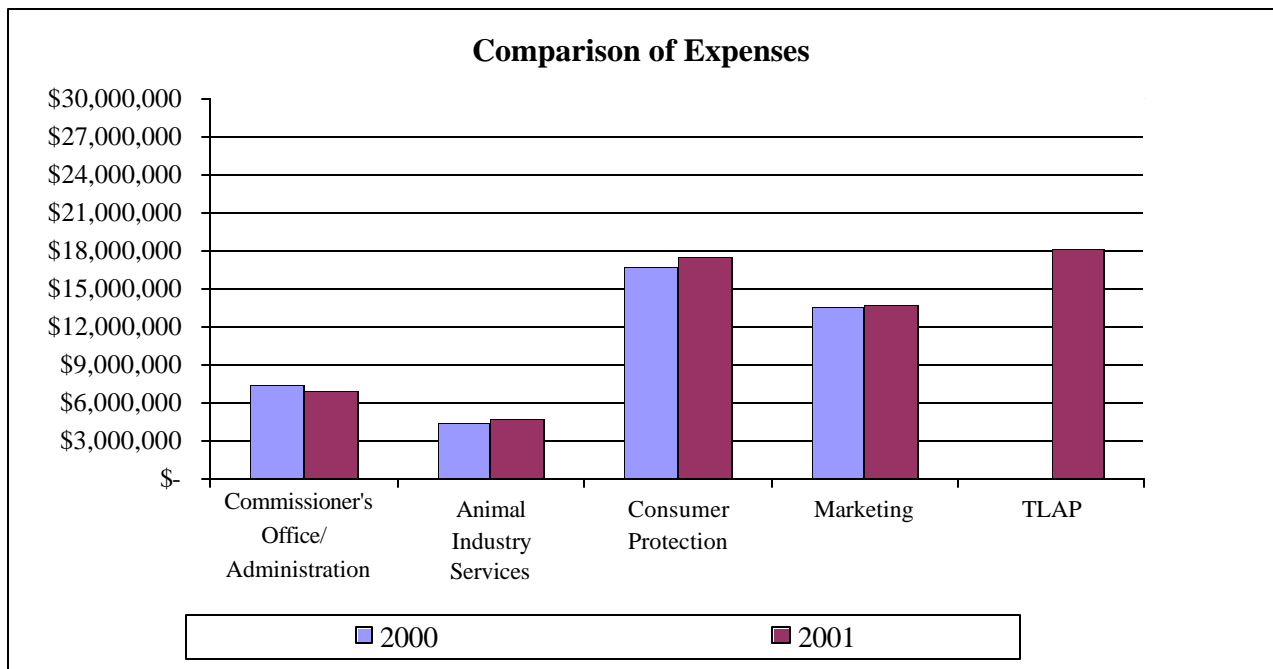
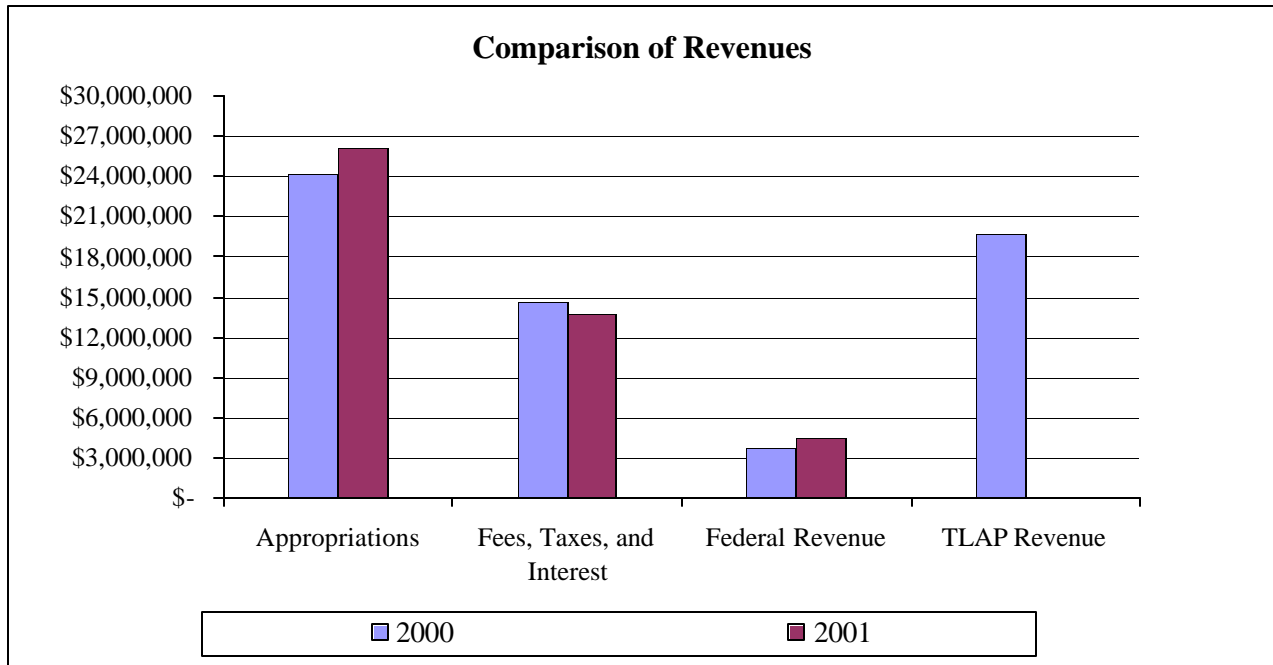
The Division of Marketing markets Virginia products ranging from livestock, poultry and eggs, grains, fruits, vegetables, peanuts, and wines for both domestic and international sales. Functions also include handling USDA food distribution functions, oversight of agriculture industry boards, and operating the Virginia's Finest Program, which identifies, differentiates, and promotes top quality Virginia-produced and processed agricultural products.

Financial Information

In fiscal year 2001, the Department received general fund appropriations of approximately \$26.1 million and fees, taxes, and interest of about \$13.8 million. The Department receives fees for services such as: animal health laboratory services, commercial pesticide applicator licenses, horse industry promotion, and feed inspections. The Department also receives funds from taxes such as the Corn Excise Tax, Tobacco Excise Tax, Virginia Cattle Tax, and Small Grain Tax.

In 2000, the U. S. Department of Agriculture (USDA) established the *Tobacco Loss Assistance Program (TLAP)* to make payments to tobacco growers to offset losses created by the reduced federal quota. The Department received approximately \$19.7 million in 2000 and issued payments of approximately \$18.2 million in fiscal year 2001 and will receive no additional funds for this program.

The following graphs are total revenues by source and expenses by division for fiscal years ending June 30, 2000 and 2001, respectively.



Commodity Boards

As noted previously, fees and tax assessments amounted to 31 percent of total revenue. The Department's Commodity Boards, overseen by the Marketing Division, assessed approximately \$3.1 million in assessments 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 17 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, the Department oversees all aspects of each Board. 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 and develop consumer education, marketing, and production programs for each specified industry. These Boards make quarterly progress reports to the Department.

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
Richmond, Virginia

BOARD MEMBERS

Joseph W. Wampler, President

Robert H. Pope, Vice President

Roy E. Seward, Board Secretary

Alexandra Liddy Bourne	Herbert A. Culpeper
Gary B. Brown	L. Bruce Holland
Clarence D. Bryant, III	Warren H. McConnell
Mary Campbell	Jennifer Peterlin Nolen
Gatewood Stoneman	

EX-OFFICIO

Dr. Charles W. Steger, President, Virginia Tech

Eddie Moore, Jr., President, Virginia State University

AGENCY OFFICIALS

J. Carlton Courter, III, Commissioner

Donald G. Blankenship, Deputy Commissioner