

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit for the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2006 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- a matter involving internal control and compliance that is necessary to bring to management's attention.

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Comply with the Commonwealth's Security Standard

We found that the Virginia Department of Agriculture and Consumer Services (the Department) is not in compliance with the Commonwealth's security standard, SEC 2001. This places the Department's systems and the information they contain at risk. We recommend the Department improve the following information security areas in order to comply with the Commonwealth's security standard and to mitigate their risk:

- Establish a security awareness training program;
- Complete a Business Impact Analysis;
- Complete a Department risk assessment;
- Modify the Department's Business Continuity Plan to include interim manual processes enabling the continuance of critical operations in the absence of data processing support;
- Modify the Department's Disaster Recovery Plan to include enough specific information to recover from a disaster affecting the network, including a prioritized list for restoring services; and
- Establish data security policies and procedures.

In order to improve the Department's information security plan, the Department will need to address the recommendations above and dedicate the necessary resources to develop, document, and implement such plans. Management should also take into account the detailed specifications included in the new Commonwealth's Security Standard, SEC501, which was effective July 1, 2006, and requires compliance by July 1, 2007.

OVERVIEW AND FINANCIAL HIGHLIGHTS

Virginia Department of Agriculture and Consumer Services

The Virginia Department of Agriculture and Consumer Services (the Department), responsible for consumer protection and the promotion of agriculture, is located within the Governor's Secretariat of Agriculture and Forestry. The Department 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 seven units to support the operations of the Department: Administrative and Financial Services; Agricultural Development Services; the Office of Communication and Promotion; the Human Resources 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 Department issues and events.

The Division of Animal and Food Industry Services has four program areas: Veterinary Services, Laboratory Services, Dairy and Foods, 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 and to maintain Virginia's tuberculosis, brucellosis and pseudorabies disease free status. 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. This 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 three program areas: 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 providing 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 account for over half of federal revenues; they include the Cooperative Agreement with States for Intrastate Meat and Poultry Inspection, Emergency Food Assistance Program, and the Cooperative Forestry Assistance grants.

The table below compares the Department's fiscal 2006 budgeted funding to actual expenses by fund.

Analysis of Budgeted and Actual Expenses by Fund (FYE 2006)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund	\$24,982,694	\$26,848,158	\$26,841,685
Special revenue funds*	17,287,235	18,449,420	14,378,108
Federal fund	<u>6,196,485</u>	<u>7,006,575</u>	<u>6,706,193</u>
Total	<u>\$48,466,414</u>	<u>\$52,304,153</u>	<u>\$47,925,986</u>

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

Special revenue funding sources support over 60 different cost centers. In fiscal year 2006, special revenue expenses were 22 percent less than budgeted. Special revenue forecasting provides a challenge for the Department because several of their programs experience variances in forecasted revenues due to the unpredictable nature of the Department's industry. For example, excise tax collections for the commodity boards and agricultural inspection fees depend heavily upon uncontrollable factors such as weather, insects, diseases, and product demand. However, the Department receives sufficient revenues to cover expenses in anticipation of a good crop year.

The Department had \$6.7 million in federal expenses during fiscal year, 2006 disbursed over 18 federal grants. Over 83 percent of federal expenses are attributable to five federal programs; four administered by the U.S. Department of 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 Emergency Food Assistance Program 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 year 2006, the Department received and distributed food commodities valuing slightly more than \$4.8 million.

The Department also distributed over \$21 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 of \$30.1 million is for payroll and fringe benefits associated with its approximately 500 employees. Transfer payments and contractual services account for another 27.9 percent (\$13.6 million) of total expenses, which includes items such as transfers to the Boards and their private associations. The Department also contracts for services with various organizations including performance of laboratory studies and research. Continuous charges, supplies and materials, equipment, plant and improvements, and property and improvements account for less than 10 percent of all expenses.

Virginia Agricultural Council

The General Assembly established the Virginia Agricultural Council (Council), then known as the Virginia Agriculture Foundation, in 1950 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 Associate Vice President for Agriculture and Extension of the 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 (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. In 2006, the Council transferred nearly \$370,000 (approximately 100 percent) of its revenue to Virginia Polytechnic Institute and State University to achieve this purpose.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 20, 2007

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

The Honorable Thomas K. Norment, Jr.
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 Agriculture Council** (Agencies) for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

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, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Agencies' 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.

Fee and License Revenues
Contractual Service Expenses
Payroll Expenses
Network Security

Accounts Receivable
Transfer Payments
Fixed Assets

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 including vouchers, deposit certificates, payroll files, board minutes, and contracts, and observation of the Agencies' operations. We reviewed the appropriate sections of the Code of Virginia and the Appropriation Acts for fiscal year 2006. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department of Agriculture and Consumer Services and the Virginia Agriculture Council properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Agencies record 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 "Internal Control and Compliance Finding and Recommendation."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on April 3, 2007. 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

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COMMONWEALTH of VIRGINIA

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April 4, 2007

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

Dear Mr. Kucharski:

We reviewed the draft audit report for the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2006. We agree that the agency is not in compliance with the Commonwealth's security standard, SEC 2001. Since SEC 2001 will expire on June 30, 2007, we will develop a plan to be in compliance with the new Commonwealth's Security Standard, SEC 501, which was effective July 1, 2006.

It is a goal of agency management to be in compliance with SEC 501 as soon as possible. We understand the importance of protecting our agency's computer applications and systems by completing a Business Impact Analysis and risk assessment. Accordingly, we plan to contract with an outside consultant to complete these efforts for the agency.

VDACS developed a Continuity of Operations Plan in January 2005 and revised it again in June 2005. The Virginia Department of Emergency Management's consultant, Excelliant Services, Inc., reviewed this plan in August 2005 and recommended potential improvements. Agency staff attended COOP training given by VDEM in September 2005. The COOP was revised to include most of the recommendations suggested by Excelliant and listed in the COOP training manual. After considerable research and analysis, we recently decided on an interoperable communication system for our agency to use in a disaster and are moving forward to purchase the system. This will finalize recommendations noted by the VDEM's consultant. Over the last year, we updated our plan again to include vital records, information for a pandemic flu outbreak, listings of employees who can work from home in an emergency, etc. We are currently working to incorporate our document into the COOP template which is due to VDEM by June 30, 2007. The next revision to our COOP will include interim manual processes

Mr. Walter J. Kucharski

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to enable the continuance of critical operations in the absence of data processing support. We think this effort will tie in nicely with our ARMICS initiative this summer. We are in the process of hiring an employee who can devote at least fifty percent of their time to the COOP.

The Virginia Information Technology Agency (VITA) owns the network that the VDACS uses. All assets, contracts and support personnel were transferred to VITA. We will ask VITA to provide us with specific information to recover from a disaster affecting the network after providing them with a prioritized list for restoring services. It will then be the responsibility of VITA to develop a plan for the recovery process. Our agency specific applications were developed using Oracle tools and once Oracle recovery is completed by VITA, most of our applications will be available.

Thank you for the opportunity to respond to the internal control and compliance finding entitled Noncompliance with the Commonwealth's Security Standard and for including our response in your report.

Sincerely,

A handwritten signature in black ink, reading "Donald G. Blankenship". The signature is fluid and cursive, with the first name "Donald" being the most prominent part.

Donald G. Blankenship
Deputy Commissioner

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

AGENCY OFFICIALS

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Deputy Commissioner

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Executive Director