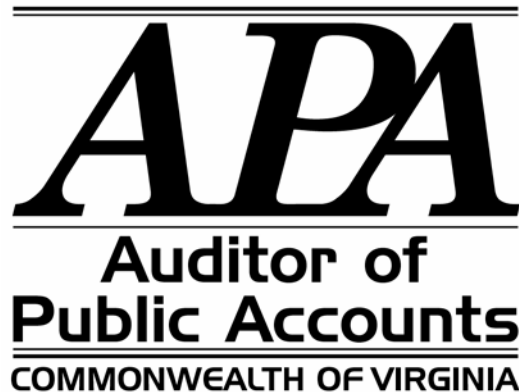


**DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES**

**REPORT ON AUDIT
FOR THE PERIOD
JANUARY 1, 2003 THROUGH JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Virginia Department of Agriculture and Consumer Services for the period January 1, 2003 through June 30, 2004 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters that we consider necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

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OVERVIEW AND FINANCIAL HIGHLIGHTS

The Virginia Department of Agriculture and Consumer Services is responsible for consumer protection and the promotion of agriculture. The Department, which is located within the Governor's Secretariat of Agriculture and Forestry, is organized into four divisions: the Commissioner's Office, the Division of Animal 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 agency: Administrative and Financial Services, Agricultural Development Services, the Office of Communication and Promotion, Human Resource Office, the Office of Internal Audit, the Office of Policy, Planning, and Research and the Milk Commission; 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; establishes producer pricing for milk; and serves as the Department's primary contact with the news media for all agency issues and events.

The Division of Animal and Food 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 also enforces regulations within retail food, food processing, manufacturing and warehouse establishments, protects Virginia's agricultural economic interests, and performs food and dairy inspections.

The Division of Consumer Protection 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 is comprised of four offices: Consumer Affairs, Pesticide Services, Plant and Pest Services, and Product and Industry Standards.

The Division of Marketing markets Virginia products ranging from livestock, poultry eggs, grains, fruits, vegetables, peanuts, and wines for both domestic and international sales. Functions also include handling USDA food distribution, 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.

Commodity Boards

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	

The Commodity Boards receive funds from taxes such as the Corn Excise Tax, Tobacco Excise Tax, Virginia Cattle Tax, and Small Grain Tax. The Boards may use these tax revenues for current Board administration and programs or accumulate the revenue for future contingencies or projects. The individual Boards are responsible for expending and managing such funds in accordance with the Code of Virginia. The Department provides administrative support and services to the Boards. The Contract Boards, which include the Apple, Cattle Industry, Egg, and Peanut Boards, have agreements with accompanying associations and councils to carry out specific programs of marketing, research, and education. The Contract Boards make quarterly progress reports to the Department. All 17 Boards present an annual report to the Commissioner of Agriculture outlining Board activity.

Financial Information

In fiscal year 2004, the Department received General Fund appropriations of approximately \$24.3 million, fees, taxes, and interest of about \$6 million in special revenue funds, and \$7.6 million in dedicated special revenue. The Department receives fees for services such as: animal health laboratory services, commercial pesticide applicator licenses, charitable solicitations registrations, and feed inspections. The Department received revenues of \$4.4 million in special revenue funds and \$6.7 million dedicated special revenue.

The schedule below shows the fiscal year 2004 budgeted expenditures compared to actual expenditures by the Department's funding sources.

Analysis of Budgeted and Actual Expenses by Funding Source Fiscal Year Ended June 30, 2004

<u>Funding Source</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual Expenditures</u>
General	\$22,308,764	\$24,345,186	\$24,258,400
Special	4,692,015	6,002,953	3,746,592
Trust and agency	5,054,231	5,225,072	4,121,233
Capital projects	-	6,183,000	139,485
Dedicated special revenue	7,376,835	7,692,808	6,012,005
Federal trust	<u>4,656,104</u>	<u>6,701,941</u>	<u>4,890,131</u>
Total	<u>\$44,087,949</u>	<u>\$56,150,960</u>	<u>\$43,167,846</u>

Special revenue and dedicated special revenue funding sources support more than 60 different cost centers. Some of these programs experience variances in forecasted revenues due to the unpredictable nature. These variances occur in programs controlled by Commodity Boards, or the Agricultural Council, or programs such as the Milk Commission or the Animal Health Laboratories that rely on special revenue funds to operate and need a balance to begin operations in the next fiscal year. Also included in special revenue is a new food inspection fee. This money is used to hire additional food inspectors and related equipment. However due to staffing difficulties, the department was not able to maintain full staffing levels and therefore did not expend all special revenues available.

The increase in the Capital Projects budget by \$6.1 million addresses the construction of a new laboratory in Harrisonburg, Virginia. In fiscal year 2004, preliminary work on the laboratory began, and included the purchase of land and building design. The Appropriation Act requires the Department to reserve the unexpended \$6 million for continued construction.

The schedule below shows the Department's expenses by type for the fiscal year ended June 30, 2004.

Expenses by Type
Fiscal Year Ended June 30, 2004

<u>Expense type</u>	<u>2004</u>
Personal services	\$26,806,406
Transfer payments	6,898,150
Contractual services	5,436,404
Continuous charges	2,166,517
Supplies and materials	1,042,096
Equipment	809,725
Plant and improvements	6,517
Property and improvements	<u>2,030</u>
Total expenses	<u>\$43,167,845</u>

The majority of the Department's expenses are payroll and fringe benefits, which account for approximately 62 percent of the total. Transfer payments and contractual services account for another 28 percent of total expenses. Transfer payments include items such as indemnification payments to poultry growers and independent egg producers for losses associated with the 2002 Avian Influenza outbreak. The Department also contracts services with various organizations including performance of laboratory studies and research.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 22, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Agriculture and Consumer Services** for the period January 1, 2003 through June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the agency's activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the agency's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed 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 agency'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, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles, classes of transaction, and account balances:

Revenues
Expenditures
Payroll

We gained an understanding of the overall internal controls surrounding these cycles, 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. We performed audit tests to determine whether the agency's controls were adequate, had been placed in operation, and were being followed.

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, regulations, contracts and grant agreements. 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 agency properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

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

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

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on July 19, 2005.

AUDITOR OF PUBLIC ACCOUNTS

NJG/sks

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

BOARD MEMBERS

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Gary B. Brown, Vice President

Roy E. Seward, Board Secretary

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Mary Campbell	Warren H. McConnell
Gregory J. Galligan	Jennifer P. Nolen
Theodore M. Hardison	Gatewood Stoneman

Steve Wolfe

EX-OFFICIO

Charles W. Steger, President, Virginia Polytechnic Institute and State University

Eddie N. Moore, Jr., President, Virginia State University

AGENCY OFFICIALS

J. Carlton Courter, III, Commissioner

Don Blankenship, Deputy Commissioner