

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

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit of the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2009 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting systems of the Department;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- the Department has adequately addressed deficiencies identified in the prior year audit report.

We noted that the Virginia Pesticide Control Act Fund has been accumulating a cash balance for several years.

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## AGENCY HIGHLIGHTS

The Department of Agriculture and Consumer Services (the Department) has responsibility for consumer protection and the promotion of Virginia agriculture and its products. The Department is located within the Secretariat of Agriculture and Forestry, and has five divisions: the Commissioner's Office, the Division of Animal and Food Industry Services, the Division of Consumer Protection, the Division of Charitable Gaming, 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. The division also develops and implements policies, legislation, and regulations for the promotion of agriculture and protection of Virginia consumers, and establishes producer pricing for milk.

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. Additionally, the division 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 Charitable Gaming has three units: the Audit Unit, the Enforcement and Inspection Unit, and the Game Training and Licensing Unit. The division has responsibility for the administration and enforcement of charitable gaming laws and Board regulations. Additionally, the division provides permitted organizations and bingo callers with training and technical assistance, and conducts audits of qualified organizations to ensure compliance with state laws and regulations.

The Division of Marketing has five program areas: Direct Marketing Services, Livestock Marketing, International Marketing, Commodity Services, and Domestic Sales and Market Development. The division promotes and markets Virginia products including: livestock, poultry, eggs, grains, fruits, vegetables, peanuts, horses, and wines for both domestic and international sales. The division's 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. Additionally, the division is responsible for the oversight of the 16 commodity boards.

## 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, provide programs and projects that benefit their commodities by using taxes and fees collected by the Department of Taxation (Taxation) for the majority of the boards. Once collected, Taxation passes the revenues to the Department who then provides the funds to the Boards for use.

The Boards may use the revenue for administration and programs or accumulate the revenue for future contingencies or projects. Individual boards spend and manage funds in accordance with the Code of Virginia. Additionally, each Board submits an annual report to the Department, public and General Assembly, which summarizes the purpose of the Board along with relevant financial activity.

Each Board has one program director, who conducts the Board's daily operations. Board directors are either Department employees or a contractor funded by associations, who provides services on behalf of the Boards. It is the responsibility of the Board directors to seek out project ideas and present the ideas to the Boards for consideration. The Department procures all contracts on behalf of the Board following the Virginia Public Procurement Act. The 16 Commodity Boards and their corresponding revenue sources consist of the following.

<u>Commodity Board</u>	<u>Source of Revenue</u>
Virginia Apple Board	Excise tax of .025 cents per bushel for growers who produce 5,000 bushels or more on a five year average
Virginia Cattle Industry Board	Excise tax of \$1 per head on cattle sold in Virginia
Virginia Corn Board	Excise tax of 1 cent per bushel collected
Virginia Cotton Board	Excise tax of 95 cents per bale of cotton ginned
Virginia Egg Board	Excise tax of 5 cents per 30 dozen and 11 cents per 100 pounds of liquid eggs or liquid equivalent
Virginia Horse Board	Fee of \$1.50 for equine infectious anemia test
Virginia Irish Potato Board	Excise tax of 2 cents per 100 pounds of Irish potatoes for growers in Virginia
Virginia Marine Products Board	License taxes, license fees, and permit fees paid in Virginia
Virginia Peanut Board	Excise tax of \$3 per ton on all peanuts grown and sold in Virginia
Virginia Pork Industry Board	Excise tax of 40 cents of \$100 value of porcine animals sold in Virginia
Virginia Sheep Industry Board	Excise tax of 50 cents per sheep sold in Virginia
Virginia Small Grains Board	Excise tax of one-half of one percent of the selling price of grain
Virginia Soybean Board	Excise tax of one-half of one percent of the net selling price per soybean bushel
Virginia Bright Flue-Cured Tobacco Board	Excise tax of 20 cents per 100 pounds of all poundage sold by the owner
Virginia Dark-Fired Tobacco Board	Excise tax of 20 cents per 100 pounds of all poundage sold by the owner
Virginia Wine Board	General fund appropriation consisting of a determined percentage of total ABC sales for the year

### Virginia Winery Distribution Company

Pursuant to Section 3.2-102 of the Code of Virginia, the Commissioner created the Virginia Winery Distribution Company (Corporation), a non-profit, non-stock corporation. The Corporation promotes, develops, and sustains markets for licensed Virginia wineries and farm wineries. Additionally, the Corporation provides wholesale wine distribution services for wineries and farm wineries licensed in accordance with Section 4.1-207 of the Code of Virginia.

The Corporation allows wineries that produce 3,000 cases or less of wine per year the opportunity to distribute wine utilizing the Corporation as the wholesaler. The Corporation's Board of Directors consists of the Commissioner and four members appointed by the Virginia Board of Agriculture and Consumer Services. The Corporation has contracted with the Virginia Distributing Company to provide information system, recordkeeping, recording, and processing of winery transactions. The Corporation also contracts with Alliance Consulting to provide customer service to current and prospective wineries that use the Corporation's distribution services.

### Virginia Agricultural Council

The Virginia Agricultural Council (Council) provides a mechanism for financing agricultural research, education, and services. The Council is a separate agency; however, the Department provides support services to the Council. The Governor appoints 15 of the Council's 18 members. The ex-officio members include the Commissioner, 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 and fee revenue as established by the Code of Virginia. The Code of Virginia charges the Council with the management of the Virginia Agriculture Foundation 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 2009 budgeted funding to actual expenses.

#### Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Dedicated Special Revenue	\$490,334	\$490,334	\$426,367

### Information Systems

The Department has identified its essential business functions and corresponding applications. The applications run on computer equipment belonging to the Virginia Information Technologies Agency and Northrop Grumman Partnership (Partnership). To ensure the restoration of applications in a disaster as required by the Department's contingency plans, the Department requested additional funding in their 2011-2012 budget to pay for disaster recovery services. The Department has initiated arrangements to pay for specific guaranteed recovery times from the Partnership once it offers these services.

## Financial Information

The Department receives a combination of general fund appropriations, special revenue funds, and federal grants, with general fund support 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, feed inspections, and certain commodity taxes. Four federal grants are over half of federal revenues, and include the Cooperative Agreement with States for Intrastate Meat and Poultry Inspection; Plant and Animal Disease, Pest Control, and Animal Care; the Emergency Food Assistance grants; and the Cooperative Forestry Assistance (Gypsy Moth) Program.

The table below compares the Department's fiscal 2009 budgeted funding to actual expenses by fund.

### Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund	\$32,209,456	\$33,846,472	\$29,388,209
Special fund*	20,563,918	21,484,893	17,010,392
Federal fund	<u>7,688,814</u>	<u>8,893,338</u>	<u>6,571,115</u>
Totals	<u>\$60,462,188</u>	<u>\$64,224,703</u>	<u>\$52,969,716</u>

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

\*\*Table excludes capital budget and expenditure amounts.

## *Expenses*

The Department spends its resources in four primary areas: Agriculture, \$27.1 million, 51.2 percent; Consumer Protection and Regulation Services, \$15.1 million, 28.5 percent; Charitable Gaming, \$1.8 million, 3.4 percent; and Administration, \$8.9 million, 16 percent. The Department's largest expense is for personnel costs associated with its approximately 521 employees. Personnel costs totaled 65 percent of total funds expended during the fiscal year. The Contractual services account for 13 percent of total expenses, which includes contracts for services with various organizations including performance of laboratory studies and research. Another 12 percent 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 ten percent of all expenses.

## *General Funds*

The net increase in the general fund budget of \$1.6 million primarily resulted from a re-appropriation for existing grants in the Purchase of Development Rights (PDR) program, which supports the conservation of Virginia farmland from development. Several factors can affect spending in the PDR program including the ability of localities to provide matching funds. Therefore, the Department cannot forecast when it will need PDR program funds.

Offsetting the general fund budget increase for the PDR program were reductions outlined in the Governor's October 2008 Budget Reduction plan. General fund reductions for the Department totaled approximately \$1.8 million. The majority of general fund reductions came from the elimination of positions,

vacancy savings, and an increase in laboratory fees. Overall, general fund expenses for the fiscal year were 13 percent less than budgeted primarily due to funds remaining in the PDR program.

### *Special Revenue Funds*

The special funds are primarily excise taxes for the Commodity Boards and a variety of different license, registration, inspection, and service fees, as shown in the table below. The Department's special fund expenses for the fiscal year were approximately \$4.4 million less than budgeted largely due to two factors. The budget included funding for the gypsy moth monitoring and suppression program, which is a cooperative initiative between federal, state, and local government entities. The gypsy moth infestation was not as high as anticipated and required less work.

Additionally, the special fund budget for Commodity Boards uses the previous year's revenues and expenses as the base for their budgets. Factors affecting the different commodity markets often impact a board's level of activities and ability to generate and expend revenues. For example, the peanut market experienced a market decline in sales during the year, as a result of media reports on salmonella cases related to the peanut butter industry.

#### Source of Fees for Special Funds Fiscal Year 2009

<u>Source</u>	<u>Amount Collected</u>
Inspection of Agriculture Product Fees	\$ 5,705,330
Miscellaneous Licenses, Permits, and Fees	3,311,422
Commodity Taxes	2,658,732
Economic Poisons Registration and Analysis Fees	2,056,060
Animal Health Laboratory Fees	1,117,595
Other Fees	3,442,642
Charitable Organization Registration Fees	1,066,570
Other Sources	<u>134,096</u>
Total	<u>\$19,492,447</u>

### *Virginia Pesticide Control Act Fund*

The Department has several dedicated special funds including the Virginia Pesticide Control Act Fund. The source of funding for the Virginia Pesticide Control Act Fund is pesticide product, pesticide business, and pesticide applicator registration fees. The Department uses these funds for pesticide certification and enforcement activities. We found that the fund had accumulated a substantial cash balance as shown in the table below. The Pesticide Control Board has not approved any projects to use the accumulated balance.



Virginia Pesticide Control Act Fund Financial Summary  
Fiscal Years 2007 through 2009

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	<u>2007</u>	<u>2008</u>	<u>2009</u>
Beginning Fund Balance	\$3,523,850	\$3,384,419	\$3,652,554
Revenue	2,602,194	2,985,635	2,644,785
Expenses/Transfers	<u>(2,741,625)</u>	<u>(2,717,500)</u>	<u>(3,244,265)</u>
Ending Cash Balance	<u>\$3,384,419</u>	<u>\$3,652,554</u>	<u>\$3,053,074</u>

*Federal funds*

Federal funds consist of 17 grants administered by the Department during the fiscal year. Over 92 percent of the Department's federal activity relates to five federal programs administered by the U.S. Department of Agriculture (USDA). The USDA grants include the national school lunch program; cooperative agreements with states for intrastate meat and poultry inspection; plant and animal disease, pest control, and animal care; and for the Emergency Food Assistance program, including food commodities and administrative costs.

During the fiscal year, the Department anticipated an increase in funding, due to the receipt of federal stimulus monies, which the change in the final budget reflects. The Department did receive and spent these funds. Additionally, both the original and final budget included grant funding for gypsy moth monitoring. As previously noted, the infestation of gypsy moths was not as high as originally anticipated and therefore the Department did not incur the anticipated costs included in the budget for this program.

*Non-monetary federal awards*

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 food commodities to the Department, which in turn distributes the food to selected local agencies, usually food banks, which deliver the food to local groups 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 2009, the Department received and distributed food commodities valued at \$10.2 million. The Department also distributed over \$24.7 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.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

April 28, 2010

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

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, 2009. 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 (CARS) and in the Agencies' internal accounting systems, 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 quantitative and qualitative significance 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.

Personal expenditures	Accounts receivable
Contractual expenditures	Transfer payments
Cash receipting	Network security
Capital assets	Appropriations
Small purchase charge card	Virginia Winery Distribution Company

Our audit did not include the review of performance measures, which we audited previously and will be reported in a statewide report from the perspective of the entire Commonwealth. To view this report or request electronic copies as they come available go to: [www.apa.virginia.gov](http://www.apa.virginia.gov).

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.

### 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 and in the Agencies' internal accounting system. The Department of Agriculture and Consumer Services and the Virginia Agricultural Council 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 no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department of Agriculture and Consumer Services has taken adequate corrective action with respect to audit findings reported in the prior year.

### Exit Conference and Report Distribution

We discussed this report with management on April 27, 2010.

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

LDJ/clj

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