

AUDIT SUMMARY

Our audit of the **Virginia Department of Agriculture and Consumer Services** for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls, but we did identify certain matters that we consider reportable conditions;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate implementation of corrective action on prior audit findings, except as reported.

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February 25, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

AGENCY HIGHLIGHTS

The **Department of Agriculture and Consumer Services** promotes agricultural, economic growth and provides consumer protection. The Department accomplishes its objectives using its lab, inspection, marketing, and distribution services through facilities located throughout the state and two foreign offices. Funding comes from General Fund appropriations, federal grants, license fees, and service fees.

Division of Consumer Protection

The Division of Consumer Protection regulates and enforces consumer and environmental protection laws. Responsibilities include inspecting food stores, food processing establishments, and food warehouses, inspecting meat and poultry to help ensure safe products, and providing consumer protection and information.

Animal Industry Services

Animal Industry Services monitors and coordinates statewide compliance with laws over the care, handling, and protection of agricultural and domestic animals. The Division also performs veterinary and laboratory services to help prevent the spread of animal diseases.

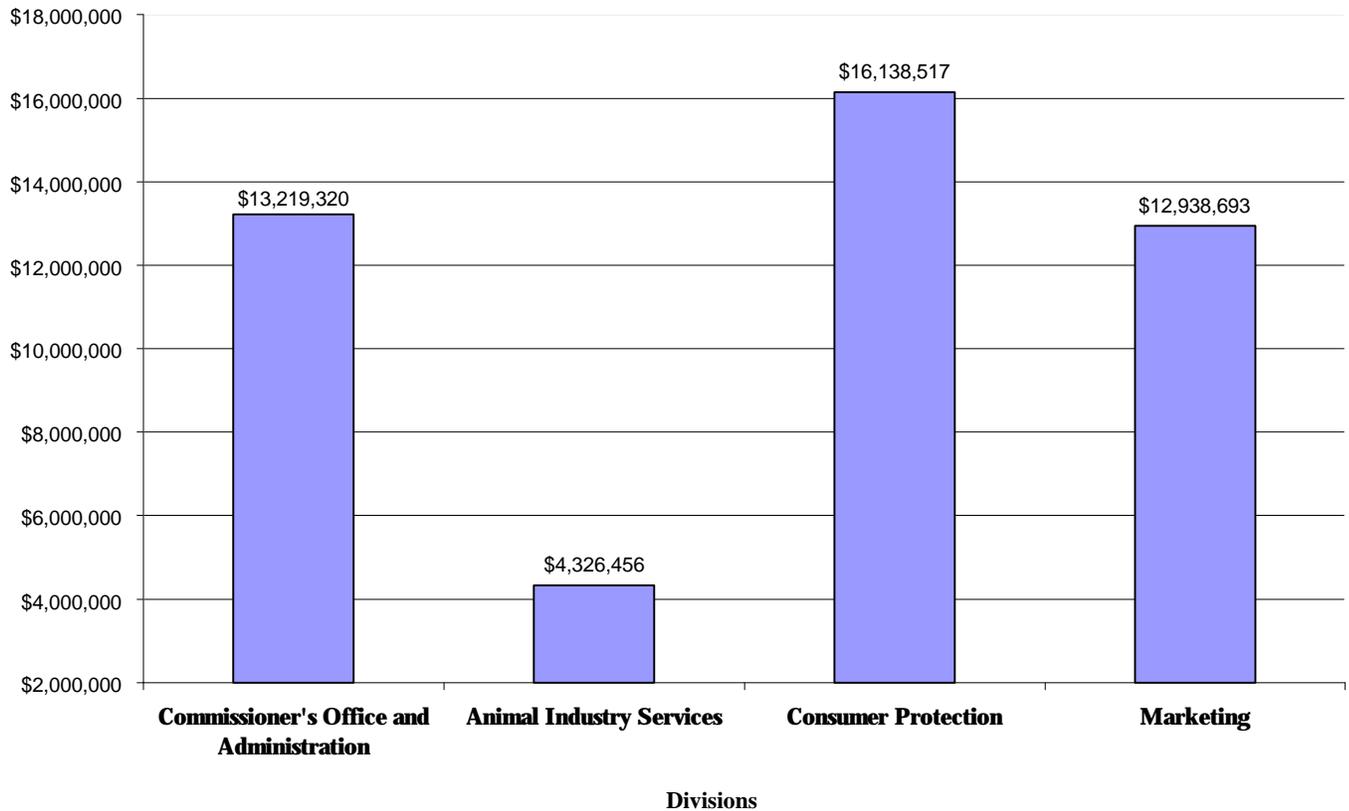
Marketing

Marketing publicizes Virginia's agricultural products by conducting market research and coordinating marketing opportunities with the Commodity Boards and potential markets. This Division has four offices: Domestic Sales and Market Development, International Marketing, Commodity Services, and Promotion and Marketing Services.

Commissioner's Office and Administration

The Commissioner's Office and Administration provides overall agency direction and financial, personnel, and information systems support. Units within this division include fiscal, budgeting, human resources, and information systems.

Total Expenditures FYE 1998



Commodity Boards

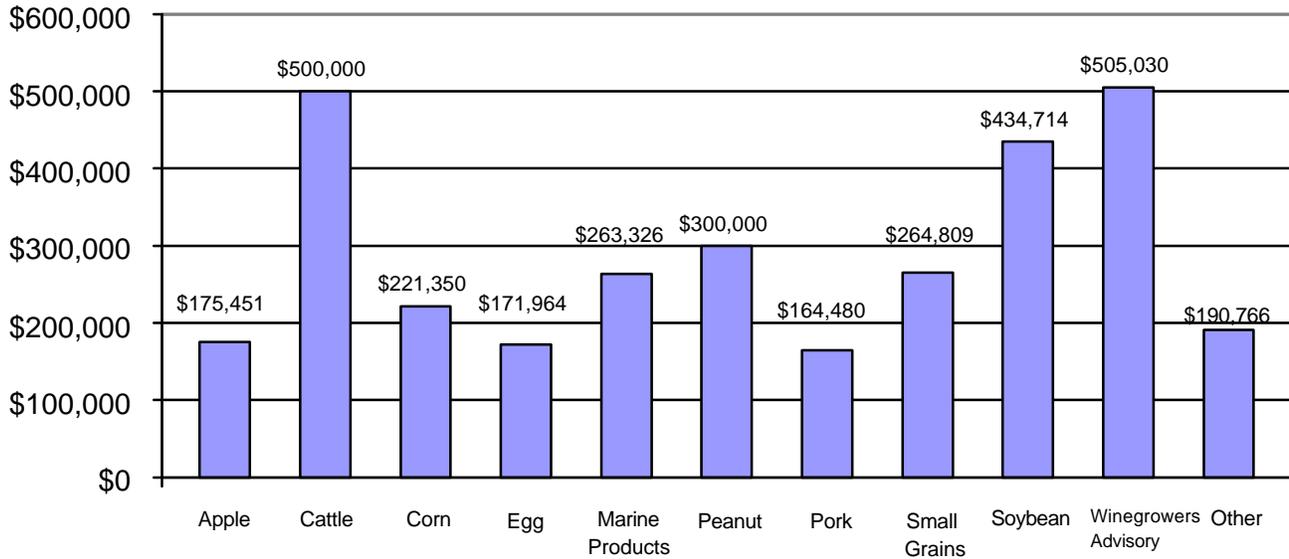
The Commodity Boards promote specific Virginia agricultural products through education, marketing, and research. Board memberships normally represent growers and producers of each of these products. The Boards generally raise funds through producer assessment fees. Commodity boards have been created within the Department of Agriculture and Consumer Services for the following industries:

Apple
Corn
Egg
Marine Products
Sheep Industry
Sweet Potato

Bright Flue-Cured Tobacco
Cotton
Horse Industry
Peanut
Small Grains
Winegrowers Advisory

Cattle Industry
Dark-Fire Tobacco
Irish Potato
Pork Industry
Soybean

Commodity Board Expenditures



Virginia Agriculture Council

The Virginia Agriculture Council provides financial assistance for agricultural research, education, and services. The Council funds projects that find new uses for agricultural products, develops markets for these products, and promotes more efficient and economical methods of agricultural production.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Monitor the Southeast Virginia Farmers Market

In November 1998, the Southeast Virginia Farmers Market came under investigation of the Southampton Commonwealth's Attorney and Sheriff's Department. Subsequently, at the request of the Department of Agriculture and Consumer Services, the Office of the Auditor of Public Accounts conducted a separate review of the Market's operations for the period June 1998 through November 1998.

Our review revealed that Market management did not have source documents to identify, weigh, or track producers' products. Without this documentation, we could not determine what produce the Market received, processed, transferred, or sold. This lack of documentation also prevented us from determining the appropriateness or inappropriateness of any claims against the Market.

Other recommendations from our review addressed the following:

- Lack of experience and knowledge regarding the day-to-day operations of the Market;
- Absence of basic operating records and procedures;

- Lack of a clear operating plan or definition of how the Market will work with producers, buyers, or brokers;
- Few established buyer and broker contacts; and
- Poor Market security.

The Farmers Market Board, a unit of the Department, has responsibility for promoting the growth and development of farmers' markets. We recommend that the Department, with guidance from the Farmers Market Board, monitor the Market and ensure the Market's management takes appropriate action to address the recommendations. Further, the Department should consider providing resources and direct guidance to the Market, if necessary.

Automate Accounts Receivable Process

The Department has manually intensive billing and accounts receivable procedures. Each Division receives an allocation of pre-numbered bills, which they send to clients. Divisions maintain copies of bills to help identify delinquent accounts, and forward a copy to the Finance Office for posting. When the Finance Office receives a payment, they match the payment against their copy of the bills and enter the payment into the financial system. This cumbersome manual process results in numerous reporting errors and is inefficient.

During our testwork, we found 20 percent of the accounts receivable were actually paid accounts. Further, we found the Department had not sent 40 percent of the delinquent bills selected to a collection agency. The Department is developing a Billings/Receivable system that will eliminate these manual processes and reduce the risk of error.

Reconcile LIMS to FINSYS

The Division of Animal Industry Services uses the Lab Billing System (LIMS) to track receivables and to bill for testing performed in the regional laboratories. When the Division receives a payment, they enter information into FINSYS, the Department's financial system. Since LIMS does not exchange information with FINSYS, staff must also manually enter the payment into LIMS. The Department does not reconcile LIMS and FINSYS for payments. The Department should establish procedures to reconcile LIMS to FINSYS, and take steps to integrate the two systems.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Agriculture and Consumer Services** for the year ended June 30, 1998. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives and Findings

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 structure, 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
- Accounts Receivable

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures were adequate, had been placed in operation, and were being followed. Our audit included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found 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 generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure 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. These reportable conditions are discussed in the section entitled "Internal Control Findings and Recommendations." We believe none of the reportable conditions are material weaknesses.

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

The Department has not taken adequate corrective action with respect to the previously reported finding, "Automate Accounts Receivable Process" (formerly *Increase Automation of Department Processes*).

Accordingly, we included this issue in the section entitled "Internal Control Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended for the information 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 June 2, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
Richmond, Virginia

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J. Carlton Courter, III, Commissioner

Donald G. Blankenship, Deputy Commissioner