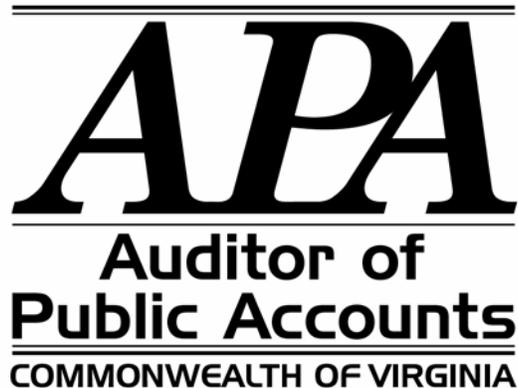


**VIRGINIA DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES
AND THE VIRGINIA AGRICULTURAL COUNCIL**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2005, 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 or other matters that are required to be reported.

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OVERVIEW AND FINANCIAL HIGHLIGHTS

Department of Agriculture and Consumer Services

The Virginia Department of Agriculture and Consumer Services (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 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 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 is divided into 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. 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 is also divided into 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 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 USDA food distribution and operating the Virginia's Finest Program, which identifies, differentiates, and promotes top 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

The 16 commodity boards (Boards) promote the sale of Virginia's farm commodities and specific agricultural products through education, marketing, and research. Growers and producers of these commodities have agreed through a referendum to establish an excise tax to pay for programs and projects that benefit their commodities. Two boards, the Marine Products Board and the Wine Board, do not generate funds through an excise tax. Licensing fees support the Marine Products Board and the Wine Board receives a portion of tax revenue collected by the Department of Alcoholic Beverage Control on Virginia wines.

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. All of the Boards are required to use the funds for marketing, research, and educational projects that benefit their respective industries, which comprise of the following:

Bright Flue-Cured Tobacco	Marine Products
Cattle	Peanut
Corn	Pork
Cotton	Sheep
Dark-Fired Tobacco	Small Grains
Egg	Soybean
Horse	State Apple
Irish Potato	Wine

The Governor makes appointments to the Boards based on recommendations from various industry groups with the exception of the Virginia State Apple Board. Voters in each district elect and the Commissioner of the Department appoints the members of the Virginia State Apple Board. Nine of the Boards have three-year terms for members while the other seven have four-year terms.

Each of the boards is mandated by a separate law, but each has the same purpose: market development and promotion, research, and education. In addition, the Virginia Sheep Board mandate includes predator control. To these purposes, the Boards have similar guidelines to which they adhere. While there are subtle differences between the boards, there is one general similarity; the Department provides administrative support and services for each board.

The Department also reviews expense requests for every project proposal from each Board. The project proposal and expense request must include a copy of the Board meeting minutes that details where the Board members agreed and signed off on a project. In addition, each Board is responsible for submitting annual reports to the Department that detail their revenues and expenses for the year and provide 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.

There are six contract boards: the Cattle Industry Board, the Egg Board, the Peanut Board, the Wine Board, and both of the tobacco boards. Contract boards are so-named because they pass the excise taxes received through to private associations with whom the boards contract to carry out board functions. The associations, with the exception of Tobacco Associates, Inc., and the Virginia Wineries Association, carry out all aspects of the marketing, research, and educational programs for the boards.

The Code of Virginia requires the Tobacco Boards to spend 40 percent of their funds on educational and research programs. These boards pass through the remaining 60 percent to the private association, Tobacco Associates, Inc, for marketing programs. The Code of Virginia dictates that the Wine Board dedicate one-third of its funds for research projects, with the remaining funds passed through to the private association. All of the associations are required to provide annual strategic plans, make quarterly progress reports, and provide annual reports to their respective commodity boards.

The following table lists the Boards and their fiscal year 2005 appropriations, revenues, and expenses. The Department estimates appropriations for the Boards based on actual production of each commodity during 2003 and 2004. However, actual production levels and the excise taxes they generate depend heavily on uncontrollable factors such as weather, insects, diseases, and product demand.

Analysis of Commodity Boards' Appropriations, Revenues, and Expenses
Fiscal Year Ended June 30, 2005

<u>Commodity Board</u>	<u>Appropriations</u>	<u>Revenues</u>	<u>Expenses</u>
Virginia Bright Flue-Cured Tobacco Board	\$ 174,000	\$ 99,029	\$ 92,045
Virginia Cattle Industry Board	500,000	202,263	202,310
Virginia Corn Board	250,000	324,517	315,466
Virginia Cotton Board	225,000	121,213	112,552
Virginia Dark-Fired Tobacco Board	8,000	2,802	4,385
Virginia Egg Board	210,000	181,762	170,265
Virginia Horse Industry Board	130,000	135,370	157,328
Virginia Irish Potato Board	25,000	13,574	19,744
Virginia Marine Products Board	435,456	316,484	285,953
Virginia Peanut Board	325,000	168,667	197,719
Virginia Pork Industry Board	204,445	200,368	239,346
Virginia Sheep Industry Board	47,550	12,189	7,518
Virginia Small Grains Board	300,000	102,040	122,120
Virginia Soybean Board	410,000	436,738	435,964
Virginia State Apple Board	-	-	108
Virginia Wine Board	<u>490,679</u>	<u>490,679</u>	<u>474,896</u>
Total	<u>\$3,735,130</u>	<u>\$2,807,695</u>	<u>\$2,837,719</u>

The Dark-Fired Tobacco Board receives very little revenue because of the tobacco quota buyout that was included in the American Jobs Creation Act of 2004. The tobacco quota buyout terminates the federal tobacco price support and supply control programs beginning with the 2005 crop, makes compensatory payments to tobacco quota owners and active tobacco growers for the elimination of the tobacco quota asset, and provides for the orderly disposal of existing tobacco pool stocks. The buyout has greatly diminished the production of dark-fired tobacco in Virginia. The Board discussed dissolving, but decided to remain intact for at least another year to see if there are any positive developments related the production of dark-fired tobacco.

The Apple Board did not collect any revenues in 2005 and has not collected any revenue since 2003, when apple producers passed a referendum to discontinue the apple excise tax. During fiscal year 2006, apple producers passed a new referendum that reinstated the excise tax and redefined the term producers as those who produce at least 5,000 bushels a year (commercial producers) up from 500 bushels. These producers are required to make their first payments based on calendar year 2006 production on January 31, 2007. According to the fiscal impact statements, the Department expects the Apple Board to receive \$125,000 annually from the reinstatement of the apple excise tax.

Financial Information

In fiscal year 2005, the Department received General Fund appropriations of approximately \$23.7 million. The Department received actual special revenue funds, which are from fees, taxes, and interest of about \$11.4 million in special revenue funds and \$4.1 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 schedule below shows fiscal year 2005 budgeted revenues compared to actual revenues by the Department's funding sources.

Analysis of Budgeted and Actual Revenues by Funding Source
Fiscal Year Ended June 30, 2005

<u>Funding source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Funding</u>
General Fund	\$23,471,283	\$23,726,864	\$23,726,864
Special revenue funds*	17,577,458	18,528,666	15,576,842
Federal grants	6,196,485	7,600,169	4,878,215
Virginia Farm Revolving Loan Fund	<u>136,888</u>	<u>766,888</u>	<u>132,183</u>
 Total	 <u>\$47,382,114</u>	 <u>\$50,622,587</u>	 <u>\$44,314,104</u>

Source: Commonwealth Accounting and Reporting System (CARS)

** includes both special revenue and dedicated special revenue*

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 of the Department's industry. For example, excise tax collections for the commodity boards and agricultural inspection fees depend heavily on 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 federal government awarded the Department several new grants related to Homeland Security. In anticipation of spending these funds, management increased its fiscal year 2005 federal fund appropriations for the full amount of the grants, but delayed spending and receiving the subsequent reimbursement for most of these new grants until the start of fiscal year 2006.

The Virginia Farm Revolving Loan Fund provides grants and low interest loans to assist small rural farmers. The state established the fund using federal grants received before 1970. The federal government discontinued their funding of the program in 1970. However, states could retain the funds collected from the repayment of loans as long as future expenses and loans adhere to federal guidelines.

The General Assembly set the loan fund's original budget based on the amount of expected interest revenue, currently the fund's only source of new funding. However, during fiscal year 2005 management increased the fund's appropriation by \$630,000 to pay \$500,000 in startup costs of a poultry cooperative and to write-off \$130,000 in loans to the Southeast Farmer's Market Association. In 1999, the Department used the fund to provide the association with a line of credit to help keep the association and the Southeast Farmer's Market in operation. While the farmer's market is still in operation, the association has since declared bankruptcy and does not have the resources to pay back the Virginia Farm Revolving Loan Fund. The fund's asset balances at the end of fiscal year 2005 were \$5,227,903 and \$145,418 of cash and loan receivable, respectively.

The following schedule shows the Department's, including the Boards', budgeted and actual expenses by program for the fiscal year ended June 30, 2005.

<u>Program</u>	<u>Program Expenses</u>			<u>Funding Source</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>General Fund</u>	<u>Special Revenue Funds *</u>	<u>Federal Grants</u>	<u>VA Farm Revolving Loan Fund</u>
Administrative and support services	\$ 8,040,059	\$ 9,418,930	\$ 8,538,270	\$ 6,991,252	\$ 782,451	\$ 50,000	\$714,567
Commerce and agricultural markets development and improvement	9,192,452	9,321,666	8,243,090	3,384,639	4,670,388	188,063	-
Regulation of food	6,226,364	6,581,668	6,054,377	4,137,324	298,459	1,618,594	-
Animal and poultry disease control	4,976,273	5,388,469	4,631,226	3,765,994	610,277	254,955	-
Regulation of products	4,800,736	5,351,367	4,364,572	526,043	3,184,355	654,174	-
Agriculture and seafood product promotion	4,736,361	4,716,115	3,711,365	1,130,457	2,580,908	-	-
Plant pest and disease control	3,667,962	3,743,517	3,259,274	1,627,943	669,958	961,373	-
Regulation of business practices	2,268,624	2,635,234	2,267,476	1,626,587	640,889	-	-
Nutritional services	2,023,277	2,011,731	1,395,521	258,430	-	1,137,091	-
Consumer affairs clearinghouse	<u>1,450,006</u>	<u>1,453,890</u>	<u>1,385,424</u>	<u>262,406</u>	<u>1,123,018</u>	<u>-</u>	<u>-</u>
Total	<u>\$47,382,114</u>	<u>\$50,622,587</u>	<u>\$43,850,595</u>	<u>\$23,711,075</u>	<u>\$14,560,703</u>	<u>\$4,864,250</u>	<u>\$714,567</u>

Source: CARS

* includes both special revenue and dedicated special revenue

Sixty-three percent of the Department's expenses (\$28 million) are for payroll and fringe benefits associated with its approximately 500 employees. Transfer payments and contractual services account for another 27 percent (\$12 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.

Virginia Agricultural Council

The General Assembly established the 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. 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 2005, the Council transferred nearly \$355,000 (about 90 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

April 7, 2006

The Honorable Timothy M Kaine
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 and the Virginia Agriculture Council** (Agencies) for the year ended June 30, 2005. 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 Revenues	Commodity Boards' Expenses
Accounts Receivable	Contract Awarding and Monitoring
Payroll Expenses	

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, reconciliations, board minutes, 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 Agencies 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 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.

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on May 15, 2006.

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 and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS/kva

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

BOARD MEMBERS

L. Bruce Holland
President

Paul Rogers
Vice President

Roy E. Seward
Board Secretary

Charles C. Clark	L. Bruce Holland
Edward S. Fleming	Andrea Lohr
Gregory J. Galligan	Wanda G. McDowell
John D. Hardesty, Jr.	Melvin E. Murphy
Theodore M. Hardison	Paul W. Rogers, Jr.

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

VIRGINIA AGRICULTURAL COUNCIL

BOARD MEMBERS

Tscharner Watkins III
Chair

Joseph H. Barlow	C. Frank Jordan
Jean Brown	Cecil “Sonny” Meyerhoeffer
Jason O. Bush	David Welch Morrisette
Gregory M. Carey	Mark H. Newbill
Kathy Coffee	Paul W. Rogers, Jr.
Philip B. Glaize, Jr.	Lynn Rush St. Clair

John Sponaugle

EX-OFFICIO

J. Carlton Courter III
Commissioner

Sharron Quisenberry
Dean, Virginia Polytechnic Institute and State University

Clinton V. Turner
Dean, Virginia State University

COUNCIL OFFICIAL

Don Ayers
Executive Director