

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the ended June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting system of the Department;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

We noted that the Virginia Pesticide Control Act and the Feed, Lime, Fertilizer and Animal Remedies Funds have been accumulating cash balances for several years.

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AUDIT FINDINGS AND RECOMMENDATIONS

Ensure Commodity Board Annual Reports Contain Required Elements

Section 3.2-1101 of the Code of Virginia establishes an annual reporting requirement of all commodity boards. Further, the 2007 Virginia Acts of Assembly, Chapter 847 Appropriation Act, requires each commodity board to provide an annual notification to its excise tax paying producers which summarizes the purpose of the Board, the excise tax, current tax rate, amount of excise taxes collected in the previous tax year, the previous fiscal year expenditures, and the past year activities of the Board.

During our review of annual reports for the fiscal year ended June 30, 2008, we identified instances where commodity board annual reports did not include one or more of the required components identified in the Appropriation Act and one instance where there were mathematical errors.

<u>Commodity Board</u>	<u>Missing Component and Other Matters</u>
VA Bright Flue-Cured Tobacco Board	Current Tax Rate and corresponding assessed units
VA Dark-Fired Tobacco Board	Current Tax Rate and corresponding assessed units
VA Apple Board	Amount of Taxes Collected and Fiscal Year Expenditures for the wrong fiscal year
VA Peanut Board	Current Tax Rate and corresponding assessed units
VA Egg Board	Excise Tax, Current Tax Rate, Amount of Taxes Collect, and Fiscal Year Expenditures
Cotton Board	Mathematical errors reported

We recommend that the Virginia Department of Agriculture and Consumer Services administration and commodity board Chairmen implement a formal review process over the commodity board annual reports. The annual reports are available to all board members, excise tax paying producers and the public upon request. Due to this, inaccurate or incomplete information can affect the usefulness of the reports for its intended users. Developing and implementing a formal review process will ensure the required components are included within each report and that the information included is accurate.

Improve Contingency Plans

During our review of the Virginia Department of Agriculture and Consumer Services (Department), we found that the Department cannot ensure the restoration of its essential IT systems after a disaster in the timeframe required in its contingency plans.

The Department has not made the necessary arrangements to continue providing essential services to the Commonwealth should a disaster strike. The Department’s essential functions are dependent on IT systems belonging to the VITA/NG Partnership.

While the Department has identified when it needs to restore IT systems after a disaster to meet its mission; it has not purchased disaster recovery services or made other provisions to ensure that the Department can restore systems in the required timeframe. The Department has not documented those functions that it can perform manually until it can re-establish IT services. The Department has also not identified the potential damages it may face if it cannot perform essential functions for an extended period of time.

The Department should ensure that it can continue its essential functions after disruption as required in its contingency plans. It should also provide manual procedures for appropriate essential functions. We recommend that the Department dedicate the necessary resources to accomplish the issues identified above.

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 while promoting and facilitating 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. Additionally, the division 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 primary contact with news media for all the Department's issues and events.

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 Department created the Division of Charitable Gaming July 1, 2008, after the merger with the Department of Charitable Gaming. The division 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 current Board 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 employees of the Department or funded by associations that contract with the Department to provide services on behalf of the Boards. It is the responsibility of the Board directors to seek out project ideas in alignment with the Board's purpose and present the ideas to the Boards for consideration. 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 5 year average
Virginia Cattle Industry Board	Excise tax of \$1 per head on cattle sold in Virginia
Virginia Corn Board	Excise tax of .01 cent per bushel collected
Virginia Cotton Board	Excise tax of .85 cents per bale of cotton ginned
Virginia Egg Board	Excise tax of .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 .02 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 .15 cents per 100 pounds on all peanuts grown and sold in Virginia
Virginia Pork Industry Board	Excise tax of .45 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 Soybean Board	Excise tax of one-half of 1 percent of the net selling price per soybean bushel
Virginia Small Grains Board	Excise tax of one-half of 1 percent of the selling price of grain
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 Corporation

Pursuant to Section 3.1-14.01 of the Code of Virginia, the Commissioner of the Department created the Virginia Winery Distribution Corporation (Corporation). The Corporation is a nonprofit, nonstock corporation that 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 less than 3,000 cases of wine per year the opportunity to distribute wine utilizing the Corporation as the wholesaler. The Corporation’s Board of Directors consists of the Department’s Commissioner and four members appointed by the Department’s Board that meet certain criteria identified in the Code of Virginia. The Corporation has contracted with the Virginia Distributing Company to provide information system, recordkeeping, recording, and funds receipt and disbursement services in support of the Corporation’s mission.

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 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; and the Emergency Food Assistance grants.

The table below compares the Department’s fiscal 2008 budgeted funding to actual expenses by fund.

Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund	\$27,621,580	\$31,979,154	\$27,637,214
Special fund*	18,572,061	20,469,000	17,096,564
Federal fund	<u>6,404,695</u>	<u>8,024,897</u>	<u>7,816,803</u>
Totals	<u>\$52,598,336</u>	<u>\$60,473,051</u>	<u>\$52,550,581</u>

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

The increase in the General fund final budget of \$4.3 million represents the re-appropriation of the June 30, 2007 Wine Board’s General fund balances in the amount of \$108,000 and \$3.5 million for the Purchase of Development Rights Program which supports the conservation of farm land from development. The Special funds are primarily excise taxes for the Commodity Boards discussed below, and a variety of different license, registration, inspection, and service fees. The amount of taxes and fees the Department receives are heavily subjective to environmental factors, changes in legislation, and product demand. For example, fees for the inspection of agricultural products surpassed the budgeted amount by approximately \$1.3 million due to different environmental factors that impacted the harvest. For grain inspections, the Department added six additional loading locations to deal with the volume increase of exported grains by 12 million bushels. Despite the unpredictable nature of the industry, the Department generates sufficient revenues to cover overall Special Fund expenses.

The Department has several dedicated Special Funds including the Virginia Pesticide Control Act Fund and the Feed, Lime, Fertilizer and Animal Remedies 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. The Feed, Lime, Fertilizer and Animal Remedies Fund receives specialty fertilizer registration fees and small packaged feed and fertilizer tonnage inspection fee. The Department uses these funds for inspecting, sampling, laboratory testing and other expenses for feed, lime, fertilizer, and animal remedies. We found that both of these funds had accumulated substantial cash balances as shown in the tables below.

Virginia Pesticide Control Act Fund Financial Summary
Fiscal Years 2006 through 2008

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Fund Balance	\$3,022,040	\$3,523,850	\$3,384,419
Revenue	2,870,937	2,602,194	2,985,635
Expenses/Transfers	<u>(2,369,127)</u>	<u>(2,741,625)</u>	<u>(2,717,500)</u>
Ending Cash Balance	<u>\$3,523,850</u>	<u>\$3,384,419</u>	<u>\$3,652,554</u>

Feed, Lime, Fertilizer and Animal Remedies Fund Financial Summary
Fiscal Years 2006 through 2008

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Fund Balance	\$ 695,316	\$ 949,852	\$1,098,682
Revenue	1,030,025	1,050,973	1,182,544
Expenses/Transfers	<u>(775,489)</u>	<u>(902,143)</u>	<u>(1,043,780)</u>
Ending Cash Balance	<u>\$ 949,852</u>	<u>\$1,098,682</u>	<u>\$1,237,446</u>

The Department had \$7.8 million in federal expenses during fiscal 2008 disbursed over 18 federal grants. Over 87 percent of federal expenses are attributable to five federal programs, four administered by the USDA 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 for the Emergency Food Assistance program. The Environmental Protection Agency administers the Performance Partnership grants that carry out enforcement activities and program implementation in the areas of worker protection, certification and training of pesticide applicators, water quality, and endangered species protection.

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 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 2008, the Department received and distributed food commodities valued at \$4.4 million.

The Department also distributed over \$28 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, 60 percent (\$32 million), is for payroll and fringe benefits associated with its approximately 504 employees. Contractual services account for 15 percent (\$8.2 million) of total expenses, which includes contracts for services with various organizations including performance of laboratory studies and research. Another 12 percent (\$6.3 million) 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 13 percent of all expenses.

The Department's commodity boards spend funds for marketing Virginia grown products domestically and internationally. Any remaining cash balances at the end of each year remain in the fund for the next year, since they represent mandatory payments by a group of producers who decide to pay an excise tax for the purpose of market and product exposure. A board's expenses for a fiscal year may exceed its revenues if it has a cash balance from the previous year.

Analysis of Commodity Board Revenues and Expenses for Fiscal Year Ended June 30, 2008

	<u>Revenues Collected</u>	<u>Expenses</u>
Apple Board	\$ 123,171	\$ 123,171
Cattle Industry Board	427,273	439,638
Corn Board	271,370	318,361
Cotton Board	92,781	110,171
Egg Board	155,903	157,591
Horse Industry Board	181,269	166,408
Irish Potato Board	10,465	8,647
Marine Products Board	293,086	300,247
Peanut Board	131,564	170,590
Pork Industry Board	250,000	233,178
Sheep Industry Board	12,310	6,582
Soybean Board	610,804	527,525
Small Grains Board	283,039	183,606
Dark-Fired Tobacco Board	1,554	1,195
Bright Flue-Cured Tobacco Board	81,906	83,839
Wine Board*	-	538,083
Totals	<u>\$2,926,495</u>	<u>\$3,368,831</u>

* The Wine Board does not collect revenue, but receives a general fund appropriation that is a determined percentage of total ABC sales for the year.

Virginia Agricultural Council

The General Assembly established the Virginia Agricultural Council (the Council) to provide 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 of Agriculture and Consumer Services, 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. 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. The table below compares the Council's fiscal 2008 budgeted funding to actual expenses.

Analysis of Budgeted and Actual Expenses by Fund for Fiscal Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Dedicated Special Revenue	\$490,334	\$490,334	\$426,710



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 13, 2009

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

The Honorable M. Kirkland Cox
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 Agricultural Council** (Agencies) for the year ended June 30, 2008. 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 system, 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
Fiscal Year 2008 Department of Charitable Gaming Expenses and Revenues	

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 certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department of Agriculture and Consumer Services has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on April 29, 2009. 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

SLJ/alh



Todd P. Haymore
Commissioner

COMMONWEALTH of VIRGINIA
Department of Agriculture and Consumer Services

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May 7, 2009

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 (“VDACS” or “the agency”) and the Virginia Agricultural Council for the year ended June 30, 2008. We agree with your findings and recommendations that the department cannot ensure the restoration of its essential Information Technology (IT) systems after a disaster in the timeframe required in its contingency plans and that six of the commodity boards’ annual reports did not include one or more of the required components identified in the Appropriation Act. Additionally, we acknowledge your reference to the cash balances in two non-general fund revenue accounts.

It is a goal of agency management to ensure that IT systems be restored in a timely manner in the event of a disaster. As you noted, the department’s essential functions are dependent on IT systems belonging to the VITA/NG Partnership. The Partnership owns the infrastructure (i.e., network, workstations, software, etc.) that VDACS uses. All assets, contracts, and support personnel previously employed by VDACS were transferred to VITA. This situation makes it very difficult for VDACS to control its own destiny in regard to disaster recovery services. VDACS staff had previously met with Partnership staff on this issue and no disaster recovery services were offered.

On April 28, 2009, VDACS requested information from the VITA Partnership about a standard disaster recovery offering. As a result of the written request of April 28, 2009, the VITA Partnership responded in writing on May 4, 2009 that currently no standard disaster recovery offering is available. However, the Partnership has proposed the development of customized disaster recovery

services utilizing the facilities of the Tier 2 Data Center in Southwest Virginia (SWESC). The following steps have been identified for the development of the customized services:

Step 1 – Engage the Disaster Recovery Team:

The Partnership Disaster Recovery (DR) Team is staffed by DR/Security Specialists who understand the concepts of disaster recovery and its criticality to continuity of business operations. At VDACS' request, the Partnership DR Team will work with VDACS to determine DR needs for services received from the Partnership. Partnership capabilities and the agency environment will also be taken into account as part of the process. The DR Team will annotate needs currently being met as well as those needs requiring remediation.

Step 2 – Complete Request for Service:

A Request for Service (RFS) will be submitted based on the agreed upon needs as established during the "Engage DR Team" step above. The RFS will result in the remediation of any needs currently not addressed or not addressed properly based on available funding. The standard RFS process includes the following high-level steps: detailed requirements gathering, solution creation based on those requirements, establishment of costs needed to implement the solution, implementation of the solution and billing to the customer.

VDACS staff will initiate the Partnership DR team engagement meeting, with the goal to meet during May 2009. Once steps one and two are completed, VDACS will be in a position to request funding through a budget request to the Department of Planning and Budget in the normal budget development process to address DR services as recommended by the Partnership. The VDACS Information Security Officer and Emergency Coordinator will work together to document the manual processes and potential damages in the event of IT outages of essential functions and incorporate into the Information Security Program and the Continuity of Operations Plan. Further, the agency is working to evaluate and refine its list of essential functions to ensure that the list accurately reflects those agency functions that are essential and must be restored immediately for the continuation of priority services.

In regard to the management point on the commodity boards, there has been a significant turnover in the staff that support the commodity boards over the last two years due to reduction in staff as the result of budget reductions and in retirements. This resulted in a loss of historical knowledge and processes. The agency will ensure that the proper information is contained in the Commodity Board Annual Reports by including the specific format in the annual request to program managers. In addition, once the reports are received, they will be reviewed against the agency's financial printouts for accuracy and checked

against the requested format for inclusion. The next round of reports will include all required and correct information.

The Audit Report notes that the Virginia Pesticide Control Act and the Feed, Lime, Fertilizer and Animal Remedies Funds have been accumulating large cash balances. For several years, the number of pesticide products subject to registration has been expected to decrease. Consequently, the Pesticide Control Board ("Board") expected the revenue would trend downward due to an expected drop off in pesticide registrations, pesticide business licenses and pesticide applicator licenses. However, this has not been the case. The Board has discussed the large balances during recent meetings and requested that VDACS staff submit a prioritized list of potential projects for consideration. Three large projects were approved in concept by the Board at their January 15, 2009 meeting which will begin the spending down of the cash balances. Management in the Lime, Feed, Fertilizer and Seed Unit will be implementing a plan to increase the usage of these funds to better serve the agricultural commodities industry on July 1, 2009. It is also important to note that the agency keeps a reserve of \$1 million dollars and \$750,000, respectively, in each account for possible costs related to the Workforce Transaction Act if ever needed.

Thank you for the opportunity to respond to the fiscal year 2008 APA Audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Haymore', with a long horizontal flourish extending to the right.

Todd P. Haymore
Commissioner

c: The Honorable Robert S. Bloxom, Secretary of Agriculture and Forestry
Donald G. Blankenship, Deputy Commissioner

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

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Roy E. Seward, Board Secretary

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Virginia Polytechnic Institute and State University

Eddie Moore, Jr., President
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Todd P. Haymore
Commissioner

Donald G. Blankenship
Deputy Commissioner

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Executive Director