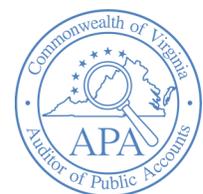




VIRGINIA DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES
AND
VIRGINIA AGRICULTURAL COUNCIL

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the **Virginia Department of Agriculture and Consumer Services** and the **Virginia Agricultural Council** for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Department's financial system;
- no matters involving internal control and its operation 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
- ongoing corrective action related to prior year recommendations.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
STATUS OF PRIOR YEAR RECOMMENDATIONS	1
AGENCY OVERVIEW	2-3
WHAT'S NEW AT THE DEPARTMENT?	3-4
INDEPENDENT AUDITOR'S REPORT	5-7
AGENCY RESPONSE	8
AGENCY OFFICIALS	9-10

STATUS OF PRIOR YEAR RECOMMENDATIONS

Perform Timely Updates to IT Risk Management and Contingency Plans and Improve Oracle Database Security

The Virginia Department of Agriculture and Consumer Services' (Department) information technology (IT) risk management and contingency plans, used to restore IT supported essential business functions in case of a disaster or emergency, were inconsistent, as reported in our previous audit.

We also previously identified and communicated specific instances of inconsistencies and non-compliance with the Commonwealth's Information Security Standard, SEC 501-08, to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia due to it identifying certain security mechanisms.

The Department's Internal Audit also released a report in May 2014 that included 26 information security recommendations, some of which overlap with our own recommendations.

We obtained a status update from the Department on the corrective actions related to these findings. As of our report date, corrective actions remain ongoing and we will review the implementation of management's corrective actions during our next audit.

AGENCY OVERVIEW

The Department of Agriculture and Consumer Services (Department) is responsible for laws and regulations relating to consumer protection and the promotion of agriculture in Virginia. The Department employs about 500 employees who work in various locations. Aside from headquarters in Richmond, the Department has several field offices; five regional diagnostic animal health laboratories located in Warrenton, Lynchburg, Ivor, Harrisonburg, and Wytheville; and an international office in Hong Kong.

The Department uses three critical information systems to carry out its operations. FINSYS, the Department's financial system, processes all fiscal transactions and interfaces with the Commonwealth Accounting and Reporting System. The Revenue Management System manages the billing, aging, and receipt management for the Department's various revenue sources and the Laboratory Information Management System tracks laboratory testing and produces bills for laboratory services.

The Department receives a combination of general fund appropriations, special revenue funds, and federal grants, with adjusted general fund appropriations of \$28.2 million being the majority of the budget. The Department collected approximately \$32.5 million dollars in revenue during fiscal year 2014 as shown in the following table.

Revenues by Source – Fiscal Year 2014

Source	Amount
License and Inspection Fees	\$18,368,516
Federal Grants and Contracts	7,919,149
Taxes for Commodity Boards	3,842,950
Other	<u>2,328,132</u>
Total	<u>\$32,458,747</u>

As shown in the table below, the Department's largest expense is for personnel costs. The table below details expenses by category.

Expenses by Category - Fiscal Year 2014

Category	Amount	Percentage
Personal Services	\$33,574,770	56%
Contractual Services	10,071,033	17%
Transfer Payments	9,416,717	16%
Continuous Charges	3,768,085	6%
Supplies and Materials	1,684,985	3%
Other	<u>920,083</u>	2%
Total	<u>\$59,435,673</u>	

The Department oversees and administers various agricultural functions including the following:

- The Department oversees 15 commodity boards which work to enhance the sale of Virginia's farm commodities by conducting market development and promotional, educational, and research programs. The individual boards, comprised of producers and agribusiness representatives, provide programs and projects that benefit their commodities such as soybean, corn and cotton. These boards are funded with taxes and fees collected by the Department of Taxation, the Department, and other entities. 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. These reports are published on the Department's website. A list of the Boards is included in the Independent Auditor's Report below.
- The Virginia Winery Distribution Company (Corporation) is a non-profit, non-stock corporation operated by the Department. The Corporation provides wholesale wine distribution centers for licensed wineries and farm wineries that produce 3,000 cases or less of wine per year.
- The State Milk Commission (Commission) ensures that Virginians have a constant, available, and reasonable priced supply of fluid milk. It establishes monthly producer prices at competitive levels with adjacent markets and it preserves market stability. It is funded completely by fees received from dairy producers, processors, and distributors, which totaled \$584,923 during fiscal year 2014.
- 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. Funding for the Council comes from assessments levied on certain agricultural supplies used by farmers and fee revenue. The Council's primary purpose is to expend funds that provide for programs of agricultural research and education and agricultural services. During fiscal year 2014, the Council expended \$378,417 with over 87 percent of this going to the Virginia Polytechnic Institute and State University.

WHAT'S NEW AT THE DEPARTMENT?

Agriculture and Forestry Industries Development Fund

During the 2012 General Assembly session, Governor McDonnell introduced legislation to establish the Agriculture and Forestry Industries Development Fund (AFID). Through this fund, the Governor approves awards with the expectation that grants awarded to a political subdivision will result in a new or expanded processing/value-added facility for Virginia grown agricultural or forestry

products. The Secretary of Agriculture and Forestry determines the award amount and terms of each AFID grant with final approval from the Governor. The grants are administered by the Department.

AFID received \$1 million in General Fund appropriations in each fiscal year starting in 2013 with an additional \$110,000 to be used for administrative expenses. The table below shows the AFID grants awarded and expended through March 2015.

**Agriculture and Forestry Industries Development Fund
Grant Activity Since Inception**

Grant Type	Amount Awarded	Amount Expended
Facilities	\$1,989,700*	\$1,249,700
Planning	<u>505,190</u>	<u>190,302</u>
Total	<u>\$2,494,890</u>	<u>\$1,440,002</u>

**Amount includes \$150,000 that was awarded, expensed, and then repaid under claw-back provisions. This amount can be re-awarded at a later date.*



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 13, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

We have audited the financial records and operations of the **Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council** (Agencies) for the year ended June 30, 2014. 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 in the Commonwealth Accounting and Reporting System and the agencies' financial system, review the adequacy of the agencies' internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and 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.

Information Systems Security
Revenue
Petty Cash
Expenses
Fixed Assets
Agency Vehicle Fuel Card Program
Virginia Wine Distribution Company
Employee Retirement System Member Data
Virginia Agricultural Council
Agriculture and Forestry Industries Development Fund
Agricultural Commodity Boards including the following:

Virginia Apple Board	Virginia Marine Products Board
Virginia Cattle (Beef) Industry Board	Virginia Peanut Board
Virginia Corn Board	Virginia Pork Industry Board
Virginia Cotton Board	Virginia Sheep Industry Board
Virginia Egg Board	Virginia Small Grains Board
Virginia Horse Board	Virginia Soybean Board
Virginia Potato Board	Virginia Tobacco Board
Virginia Wine Board	

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, regulations, contracts, and grant agreements. 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 agencies properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the agencies' financial 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, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The agencies have ongoing corrective action with respect to audit findings reported in the prior year. These matters are described in the section entitled "Status of Prior Year Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on May 7, 2015. Management's response to the "Status of Prior Year Recommendations" section of our report is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AVC/clj



COMMONWEALTH of VIRGINIA

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May 7, 2015

Sandra J. Adams
Commissioner

Ms. Martha Mavredes
Auditor of Public Accounts
James Monroe Building
101 North 14th Street
Richmond, VA 23219

Dear Ms. Mavredes:

We have reviewed the draft audit report covering the Virginia Department of Agriculture and Consumer Services ("the agency") and the Virginia Agricultural Council for the year ended June 30, 2014. In response to the Status of Prior Year Recommendations, the agency is on schedule with the corrective actions required to mitigate the prior year findings. The agency's risk assessments, risk treatment plans and business impact analyses have been updated and approved.

As noted in your report, the agency's efforts to comply with the Commonwealth's information security standard are ongoing and corrective action plans are in place. Steps have been taken to ensure that policies and procedures are in line with the security standard and updated as the standard changes. Internal audit has been an integral part of this process.

Thank you for the opportunity to provide an update to our ongoing information technology security efforts.

Sincerely,

A handwritten signature in blue ink that reads "Sandra J. Adams".

Sandra J. Adams
Commissioner

cc: The Honorable Todd P. Haymore, Secretary of Agriculture and Forestry
Charles Green, Deputy Commissioner

-Equal Opportunity Employer-

VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

(as of June 30, 2014)

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Sandra J. Adams
Commissioner

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