

Audit Report

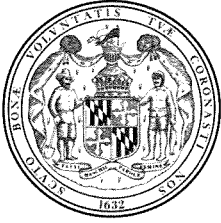
Potomac River Fisheries Commission

Report for the Year Ended June 30, 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

June 16, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

Enclosed is a copy of the report on the annual examination of the Potomac River Fisheries Commission for the year ended June 30, 2013 as prepared by the Auditor of Public Accounts of the Commonwealth of Virginia.

The Commission receives annual grants from the State of Maryland (via the Department of Natural Resources) and the Commonwealth of Virginia. Annual examinations of the records of the Commission are conducted jointly by representatives of the Office of the Auditor of Public Accounts of the Commonwealth of Virginia and the Office of Legislative Audits. Pursuant to an understanding between the two Offices, the report is issued by the Auditor of Public Accounts.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor



POTOMAC RIVER FISHERIES COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the **Potomac River Fisheries Commission** for the fiscal year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commission's financial system;
- a matter involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDING AND RECOMMENDATION

Improve Overall Operational Controls

The Potomac River Fisheries Commission began a year of transition in July 2013, when its long standing Executive Secretary retired and a replacement came from outside of the organization. Although this audit covers fiscal year 2013, we noted several areas where controls are not in place or are not functioning properly to ensure safeguards over assets since the transition began.

The Administrative Assistant does not secure the Commission's debit card. Management was informed of this lack of control during the fiscal year 2012 audit and took steps to correct this immediately; however, upon follow-up in fiscal year 2013, the Administrative Assistant is again keeping the debit card in an unsecured location.

The Executive Secretary did not document his review of the last payroll in fiscal year 2013 and has not documented any payroll review during fiscal year 2014. Management review of payroll transactions is crucial to ensure that only current employees receive the correct pay.

Commission staff and the new Executive Secretary did not prepare or review the June 30, 2013, operating account reconciliation until October 15, 2013, and did not review or reconcile other bank accounts until April 14, 2014, which resulted in the recording of bank service charges and interest revenues in the wrong period. Timely reconciliation of all bank accounts is necessary to ensure that unauthorized expenditures do not occur and that deposits are properly recorded. In addition, lack of reconciliation coupled with no controls over the debit card could result in fraudulent charges that personnel would not catch within a timeframe that would allow recoupment from the bank – normally required within 60 days. Further, delay in preparation of reconciliations together with absence of a review of payroll transactions could result in incorrect pay amounts and fraudulent payments to ghost employees.

The Commission should ensure that controls are in place to properly safeguard Commission assets. This includes proper security surrounding the debit card; systematic documented review of all payroll transactions by the Executive Secretary and/or Assistant Executive Secretary; and timely reconciliation of all bank accounts.

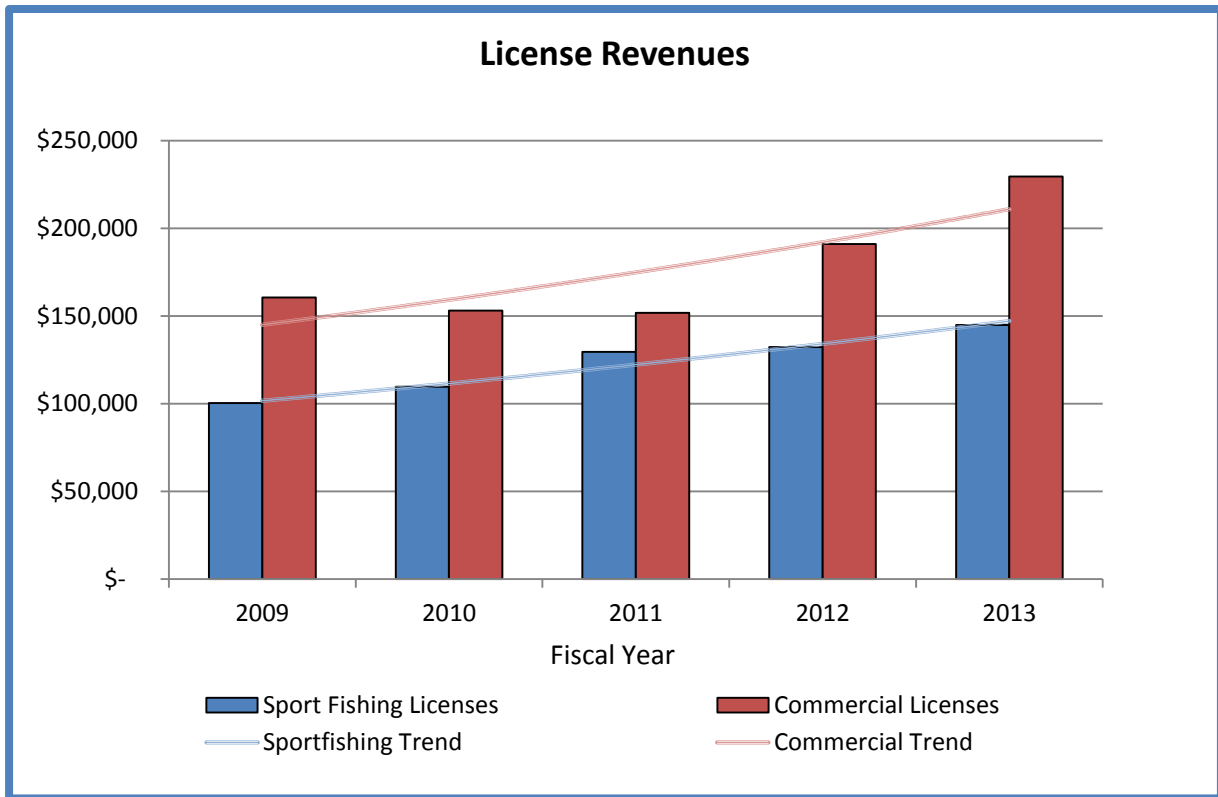
AGENCY HIGHLIGHTS

The Potomac River Fisheries Commission is a bi-state commission established to conserve and improve the fishery resources of the tidewater portion of the Potomac River. The Commission's leadership consists of eight Commissioners, four representing Maryland and four representing Virginia.

During the current and previous fiscal years, the Commission received revenues from the following sources.

	2012	2013
Virginia appropriations	\$148,750	\$148,750
Maryland appropriations	140,000	140,000
Federal grant	104,147	109,024
Sport fishing licenses	132,370	144,926
Commercial fishing licenses	74,790	76,215
Commercial crab licenses	71,000	70,820
Commercial oyster licenses	3,570	46,610
Commercial license surcharge	41,650	35,950
Oyster bushel tax	328	3,415
Interest and miscellaneous	<u>38,035</u>	<u>27,466</u>
Total revenue	<u>\$754,640</u>	<u>\$803,176</u>

The Commission's revenues increased by six percent for fiscal year 2013 mainly due to an increase in the sale of sport fishing and commercial licenses and a new oyster management reserve program, discussed below. The decrease in revenues for interest and miscellaneous is attributable to revenue from the sale of the Commission's vehicle in 2012. In the past five years, sport fishing license revenues have trended upwards and commercial licenses continue on an upward trend as can be seen in the following chart:



The Commission had the following expenses during the current and previous fiscal years:

	2012	2013
Personnel services	\$356,232	\$373,605
Development and repletion	4,387	106,526
Federal grant	92,275	105,565
Contractual services	69,665	89,864
Materials and supplies	51,770	56,073
Insurance	7,508	7,426
Fixed assets	<u>27,283</u>	<u>844</u>
Operating Expenses	<u>609,120</u>	<u>739,903</u>
Reserve Fund Deposits for:		
Oyster development	31,500	42,473
Retiree health care	<u>50,000</u>	<u>75,000</u>
Reserve Expenses	<u>81,500</u>	<u>117,473</u>
Total Expenses	<u>\$690,620</u>	<u>\$857,376</u>

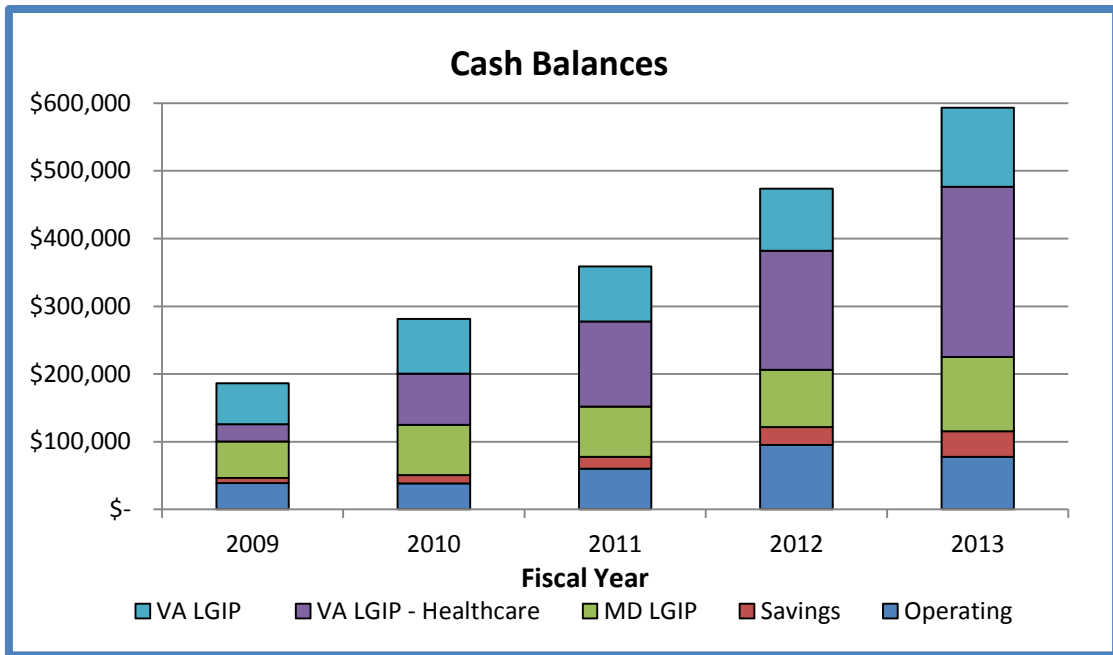
Operating expenses increased by \$130,783 or twenty-two percent from fiscal year 2012. This is attributable to two new oyster programs created in fiscal year 2013, the Oyster Management Reserve (OMR) program and the Rotational Natural Oyster Harvest Program (RNOHP).

The Commission continues to study and promote development of a self-sustaining oyster industry in the Potomac. The OMR program had 23 participants in 2013 which yielded \$30,725 in additional license revenues and projections for fiscal year 2014 and beyond show additional increases. The RNOHP began late in fiscal year 2013 and had no participants but did incur \$53,296 in development and repletion expenses. During fiscal year 2013, the Commission set aside an additional \$42,473 to fund future oyster work. The Commission maintains the set aside funds for future oyster work in accounts located in both Virginia and Maryland. Interest accrues on these accounts at the market rate.

Funding of retiree health insurance has been a continuing concern of the Commission. In fiscal year 2013, an actuarial study indicated the Commission needs to set aside a minimum of \$53,500 per year to ensure current employees' healthcare is funded upon retirement. The study used a base amount of \$250,000; therefore, the Commission set aside \$75,000 to bring the retiree health insurance account in line with the calculated base. Interest accrues on this account at the market rate. Additionally, the Commission established a trust to administer and maintain these funds naming the Commission's Legal Officer as trustee.

The Commission closed fiscal year 2013 with an operating gain of \$63,273. After factoring in the reserve expense of \$117,473, the Commission's operating loss was \$54,200. This is the first year in over five years that the Commission did not realize a net gain. The additional funding to the retiree health insurance account and increased development and repletion expenses have caused this overall loss.

The ability of the Commission to continue to retain more cash each year is dependent on whether they continue to hold down spending on operations and bring in revenues at the current level or higher, thus making funds available to set aside each year for future liabilities and ongoing oyster programs. The Commission closed fiscal year 2013 with a cash balance of \$593,042 to include \$226,282 in the Virginia and Maryland investment pool accounts and a separate Virginia investment pool account for retiree health care reserves, with a balance of \$251,458 as of June 30, 2013.



The Commission experienced a change in management at the end of fiscal year 2013, with the retirement of the Executive Secretary after thirty years with the Commission and the hiring of a new Executive Secretary as of July 1, 2013.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 5, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Potomac River Fisheries Commission** for the year ended June 30, 2013. 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 Commission's accounting system, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Commission'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, 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.

Capital assets
Contractual services expenses
Payroll expenses
Appropriations

Cash receipting
License revenues
Federal grant revenues and expenses

We performed audit tests to determine whether the Commission's 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 Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed bank balances with outside parties.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commission's accounting system. The Commission records its 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 Commission's accounting system.

We noted a matter involving internal control and its operation that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation." 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.

Exit Conference and Report Distribution

We discussed this report with management on May 20, 2014. Management's response to the findings identified in our audit 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 the state of Maryland and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC\clj

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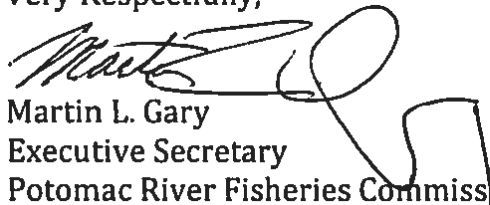
The Auditor of Public Accounts
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Richmond, Virginia 23218

Dear Ms. Mavredes:

The Executive Secretary of the Potomac River Fisheries Commission (PRFC) has reviewed the findings and final report associated with the audit of the Commission for the 2013-2014 fiscal year, along with its additional FY 2014-2015 observations. PRFC concurs with the findings of the audit report. PRFC agrees with issues identified as areas of concern, including those related to the following:

- The Administrative Assistant not properly securing the Commission's debit card. **Action: The Commission has taken action to keep the debit card in secure location (Climate controlled safe)**
- The Executive Secretary did not document his review of the last payroll in fiscal year 2013 and has not documented any payroll review during fiscal year 2014. **Action: The Executive Secretary has begun reviewing payroll and documenting with a bi weekly review of payroll for all employees.**
- Commission staff and the new Executive Secretary did not prepare or review the June 30, 2013 operating account reconciliation until October 15, 2013, and did not review or reconcile other bank accounts until April 14, 2014, which resulted in the recording of bank service charges and interest revenues in the wrong period. **Action: The Executive Secretary has taken action to address timely reconciliation operating and bank accounts. In addition, the Executive Secretary will begin Quickbooks training to improve fluency and expediency of account reconciliations. In addition, the Assistant Executive Secretary will participate in assistance of reconciliation for quality control and preservation of institutional knowledge critical to the operations of the Commission. The Assistant Executive Secretary will also participate in Quickbooks training.**

Very Respectfully,


Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

AGENCY OFFICIALS

(as of June 30, 2013)

POTOMAC RIVER FISHERIES COMMISSION
Colonial Beach, Virginia

COMMISSIONERS

Virginia

Jack G. Travelstead, Vice Chairman

Ida C. Hall, Secretary

Kyle J. Schick

Joseph G. Palmer, Jr.

Maryland

Dennis C. Fleming, Chairman

William L. Rice, Sr.

Robert H. Bowes

Thomas J. O'Connell

Officers

Kirby A. Carpenter, Executive Secretary

Michael C. Mayo, Legal Officer