



POTOMAC RIVER FISHERIES COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Potomac River Fisheries Commission for the fiscal year ended June 30, 2019, found:

- proper recording and reporting of all transactions in all material respects, in the Commission's financial system, except as noted in the finding "Improve Financial Recording;"
- matters 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.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
COMMISSION HIGHLIGHTS	4-7
INDEPENDENT AUDITOR'S REPORT	8-10
COMMISSION RESPONSE	11
COMMISSION OFFICIALS	12

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Financial Recording

Type: Internal Control

Repeat: No

During our audit of fiscal year 2017, we noted that the Potomac River Fisheries Commission (Commission) did not have accounting personnel with adequate knowledge of accounting standards to properly record and process the Commission's uncommon financial transactions. While we considered this issue resolved in our fiscal year 2018 audit, the issue has surfaced again, resulting in various inaccuracies, as described below, in the Commissions financial records. The Fiscal Officer did not properly prepare the year-end adjusting entries to record:

- An expense for the annual contribution to the retiree healthcare investment account, resulting in an understatement of expenses of \$20,000; and
- An adjustment of the liability for future oyster work after the Commission reduced some of the oyster program restrictions from prior years totaling \$185,282.

In addition, the Fiscal Officer post-dated the check for the Commission's annual insurance premium for July 1, 2019; however, the check cleared the bank on June 28, 2019. This resulted in a variance between the reconciled balance in the operating account and the general ledger balance. The Fiscal Officer did not detect the variance because she does not perform a review of account activity.

Overstatement of liabilities and expenses hinders the ability of the Commission to assess its financial position and make sound financial decisions. While the Fiscal Officer has taken training on the accounting system and the Executive Secretary has taken an introductory online class in accounting, they still require additional knowledge and training in some areas. The Commission should continue to encourage the Fiscal Officer to enhance her knowledge. In addition, the Fiscal Officer should review all financial transactions and account balances for agreement and completeness at a minimum each quarter, and especially at year end, prior to presenting the financial report to the full Commission.

Prepare Bank Reconciliations Timely

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2016)

The Commission does not prepare bank reconciliations timely. The Commission holds six checking/savings accounts, which requires them to complete 72 reconciliations. The Executive Secretary prepared reconciliations 32 to 61 days after month end for 15 reconciliations or 21 percent. The Commission policy manual, which was last updated on June 7, 2019, does not outline a timeframe for the completion of the reconciliations. Best practices suggest that the Commission should complete a reconciliation at least monthly prior to issuance of the following month's statement to ensure that transactions are correct and no fraud has occurred.

Without timely reconciliation of all bank accounts, the Commission increases the risk that unauthorized expenses will occur and that deposits will not be properly recorded. Preparation timeliness has improved since the prior year; however, we still recommend that the Executive Secretary should set specific deadlines for completion of all monthly bank reconciliations and adhere to these deadlines.

Develop and Implement Information Security Policies and Procedures

Type: Internal Control

Repeat: No

The Commission does not have information security policies and procedures to support their information security program. In addition, the Commission has not adopted an information security standard. Industry best practices suggest that entities prepare, disseminate, and maintain information security policies, standards, guidelines, and procedures to facilitate effective implementation of an information security program.

Without documented and formally approved information security policies and procedures, the Commission cannot effectively communicate and implement information security requirements to protect and mitigate risks to sensitive data. Additionally, the Commission may inconsistently address security needs in the information technology (IT) environment, increasing the potential of unauthorized access to data and reducing the ability to recover from system outages timely, among other risks.

The Commission has not adopted an information security standard and lacks documented and approved information security policies and procedures due to a lack of sufficient financial resources to hire full-time IT personnel. Additionally, the Commission uses outside contractors to help manage and maintain its IT operations, and the contractors may not understand the Commonwealth security requirements. Given the absence of the Commission's choice of an information security standard, we evaluated their information security program against the Commonwealth's Information Security Standard, SEC 501.

The Commission should dedicate the necessary resources to select a security standard, develop and formally approve information security policies and procedures, and implement them into their information security program. The policies should align with the requirements in the security standard the Commission selects and establish the minimum information security requirements to implement in the Commission's IT environment. Selecting an information security standard and developing and implementing information security policies and procedures will help to ensure the confidentiality, integrity, and availability of data and achieve compliance with the security standard.

Upgrade End-of-Life Technology

Type: Internal Control

Repeat: No

The Commission is using end-of-life software to support their sensitive systems. The Commission is running unsupported software versions to support their backup environment. In addition, the operating system that supports the Commissions' production environment and all desktop devices are running software for which support will end in January 2020. There are currently no plans to upgrade or replace the end-of-life server and other software versions that will be end-of-life in several months. We communicated these issues to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), Section SI-2-COV, prohibits the use of software products that the software publisher has designated as end-of-life or end-of-support. Additionally, the Security Standard, Section SI-2, requires entities to install security-relevant software and firmware updates within 90-days after the vendor releases the update.

The Commission's use of end-of-life software increases the risk that known vulnerabilities will persist in the systems without the potential for patching or mitigation. Additionally, vendors do not offer operational and technical support for software versions designated as end-of-life or end-of-support, which increases the difficulty of restoring system functionality if a technical failure occurs. The Commissions production and backup environments use the end-of-life technology, which increases the risk of an extended downtime in the event of an outage.

While management is aware of the need for current technology, the Commission lacked the financial resources to upgrade their information technology infrastructure to versions the vendor supports due to a going concern issued identified in fiscal year 2016.

The Commission should dedicate the resources necessary to upgrade the infrastructure components using the end-of-life technology as soon as possible. Upgrading and replacing the end-of-life technology will help to protect the integrity and availability of mission essential data.

COMMISSION 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.

Commission Revenues

Table 1

	2018	2019
Virginia appropriations	\$148,750	\$148,750
Maryland appropriations	140,000	140,000
Federal and other grants	104,350	67,728
Sport fishing licenses	113,459	102,505
Commercial fishing licenses	79,215	82,618
Commercial crab licenses	67,975	70,690
Commercial oyster and clam licenses	80,085	92,873
Commercial license surcharge	60,450	120,250
Oyster bushel tax	13,681	23,815
Interest and miscellaneous	28,765	53,708
Total revenue	\$836,730	\$902,937

Source: Commission's financial system

The Commission's revenues increased by eight percent for fiscal year 2019 due primarily to an increase in the fees charged for commercial license registration (from \$50 to \$150). All other license revenues increased except for sport fishing licenses due to a severe decrease in the striped bass population and more stringent sport regulations. Additionally, federal grant revenues decreased as there were no oyster plantings during the fiscal year due to conditions in the Potomac River caused by record rainfalls, which decreased the salinity of the water.

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

Commission Expenses

Table 2

	2018	2019
Personnel services	\$405,401	\$377,974
Development and repletion	124,563	22,500
Federal grant	102,373	53,268
Contractual services	83,140	72,039
Materials and supplies	54,975	52,908
Insurance	8,033	8,175
Fixed assets	-	3,368
Total Operating Expenses	778,485	590,232
Reserve Fund Deposits for:		
Retiree health care	20,000	20,000
Total Expenses	\$798,485	\$610,232

Source: Commission's financial system

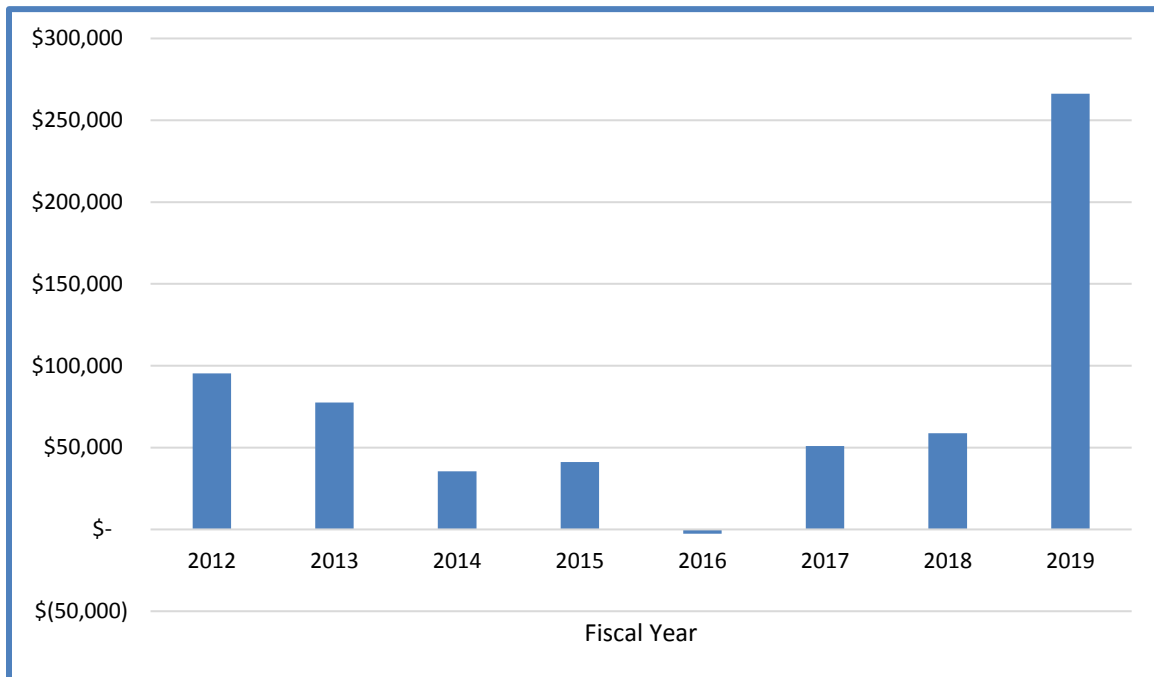
Total expenses decreased by 24 percent from fiscal year 2018. This is attributable to continued decrease in oyster seeding expenses due to weather conditions (82 percent) and a seven percent reduction in personnel expenses. In addition, the Commission made a conscious effort to decrease operating expenses to address the going concern issue reported in previous reports.

The Commission closed fiscal year 2019 with an operating profit of \$292,706, including funding of the retiree healthcare trust. This profit is attributable to no oyster plantings for the oyster programs and an increase in the commercial license registration fee. The Commission has also changed their strategy and overhauled the oyster program reserves to reduce the reserve by approximately \$185,000.

The Commission has taken seriously the going concern issue reported in the last three fiscal years and has become more deliberate in their financial planning. The Commission ended the year with a positive operating cash balance of \$266,164 as shown in Chart 1. By repurposing the oyster program reserve funds, they have reduced prior year deficits in funding reserves to \$18,381. The Commission voted in October 2018 to only fund amounts specifically received for the Oyster Management Reserve (Reserve) and Rotational Natural Oyster Harvest Program (Harvest) supplemented by amounts specifically allowed by the Potomac River Compact of 1958. The Commission has improved their overall financial position through these actions.

Operating Cash Balances

Chart 1

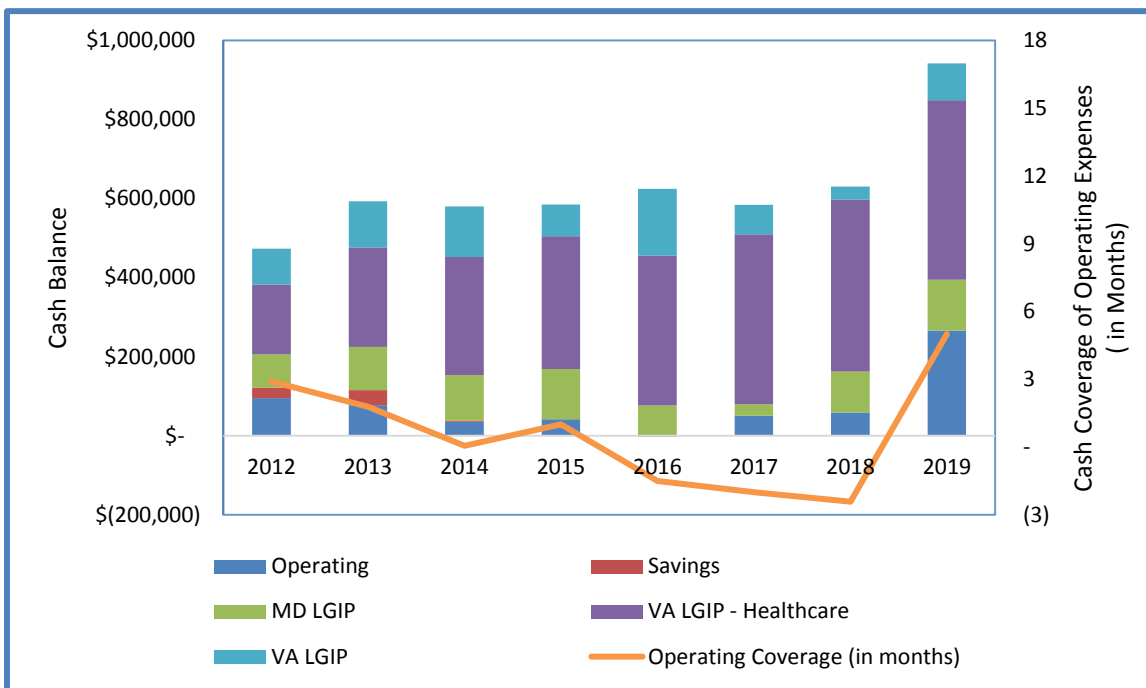


Source: Commission's financial system

The Commission closed fiscal year 2019 with an overall cash balance of \$941,957 in six different bank accounts, which was a 50 percent increase (\$311,403) over fiscal year 2018 levels. The cash balance includes \$221,934 in the Virginia and Maryland investment pool accounts to fund future oyster work and \$453,859 in a separate Virginia investment pool account for retiree health care reserves. The remaining three accounts include two operating and one savings account. The retiree healthcare account is managed by a trust and legally cannot be used to fund operations. The Commission earmarked two accounts for the Reserve and Harvest programs, and the Commission no longer uses these reserves to supplement operating cash. As shown in Chart 2, as of June 30, 2019, the Commission's operating cash coverage has tripled from negative two months coverage to a positive 5 months coverage of operating expenses due to the Commission's decision to restrict contributions to the oyster programs and recalculate the reserves for these programs.

Cash Balances by Account

Chart 2



Source: Commission's financial system



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 11, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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, 2019. 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 financial system; review the adequacy of the Commission's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from the prior year report.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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.

Federal grant revenues and expenses
Contractual services expenses
Payroll expenses
Small purchase charge card
Appropriations
Cash receipting
Capital assets
Information system security

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 performed analytical procedures, including budgetary and trend analyses. We confirmed bank balances with outside parties. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commission's financial system, excepted as reported in the finding "Improve Financial Recording." The financial information presented in this report came directly from the Commission's financial system.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations." The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

The Commission 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 September 11, 2019. Management's response to the findings identified in our audit is included in the section titled "Commission 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

DBC/clj

COMMISSIONERS:

PHIL L. LANGLEY (MD)
Chairman

KEN NEILL (VA)
Vice Chairman

JEANNIE HADDAWAY-RICCIO
(MD)

WILLIAM L. RICE, SR. (MD)

KYLE J. SCHICK (VA)

STEVEN G. BOWMAN (VA)

WAYNE FRANCE (VA)

BOBBY BOARMAN (MD)

MARYLAND - VIRGINIA
"Potomac River Compact of 1958"

Potomac River Fisheries Commission

P.O. Box 9
Colonial Beach, Virginia 22443
www.prfc.us



OFFICERS:

MARTIN L. GARY
Executive Secretary

MICHAEL C. MAYO, ESQ.
Legal Officer

TELEPHONE:
(804) 224-7148
(800) 266-3904

FAX:
(804) 224-2712

E-MAIL:
contactprfc@gmail.com

September 18, 2019

The Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes,

The Executive Secretary of the Potomac River Fisheries Commission (PRFC) has reviewed the findings of the final report associated with the audit of the PRFC for the 2018-2019 fiscal year. PRFC acknowledges the findings of the report. The Executive Secretary has been, and will continue to discuss the findings with its Commissioners, as they relate to the comprehensive fiscal condition of the PRFC. The PRFC has been and will continue to operate in a mode of strong fiscal constraint for the current fiscal year, to ensure it continues to follow through in addressing previous overarching expenditure concerns. The PRFC will continue to seek to augment existing revenue streams and add revenue sources wherever possible. The PRFC will continue to seek more efficient use of existing available revenue such as the annual NOAA Atlantic Coastal Fisheries Cooperative Management Grant. Proactive and reactive actions continue to be taken to address internal control issues that were identified, and we expect to achieve full resolution to those IC items in this fiscal year.

We thank the Bi State audit team for working with our staff to identify and address these issues. We are confident that all issues will be addressed in the coming months.

Very Respectfully,

Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

POTOMAC RIVER FISHERIES COMMISSION

as of June 30, 2019

COMMISSIONERS

Virginia

Steven G. Bowman

G. Wayne France

Dr. Ken Neill, Vice-Chairman

Kyle J. Schick

Maryland

Robert Boarman

Lynn Fegly, Acting Secretary

Phil L. Langley, Chairman

William L. Rice, Sr.

Officers

Martin L. Gary, Executive Secretary

Michael C. Mayo, Legal Officer