



POTOMAC RIVER FISHERIES COMMISSION

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 **Potomac River Fisheries Commission** for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commission's financial system;
- 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.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Overall Financial Controls

Potomac River Fisheries Commission (Commission) has experienced an overall weakness in its operational and financial controls since the transition of the new Executive Secretary in fiscal year 2013. The Commission has not made improvements in several of the areas with weaknesses noted in the prior year audit and new concerns surfaced during the fiscal year 2014 audit.

During the fiscal year 2013 audit, the Commission did not prepare bank reconciliations timely and the Executive Secretary did not review the reconciliations. During fiscal year 2014, the Commission did not prepare any bank reconciliations. The Commission hired an outside consultant to assist staff with the operating account bank reconciliations for all of fiscal year 2014 in October 2014. There is no evidence that the Executive Secretary reviewed these reconciliations. The Commission prepared year-end bank reconciliations for the remaining accounts in October and November 2014. The Executive Secretary did review these reconciliations. Due to these issues, we expanded our review of reconciliations into fiscal year 2015. Between July 2014 and February 2015, the Commission prepared bank reconciliations for all accounts between 65 and 90 days after each month end. The Executive Secretary did not review the reconciliations in certain cases until more than six months after the reconciliation was prepared. Timely reconciliation of all bank accounts is necessary to ensure that unauthorized expenses are not made and that deposits are properly recorded.

During fiscal year 2013, the Executive Secretary did not review payroll. This lack of review continued not only through fiscal year 2014, but also through March 2015. Management review of payroll transactions is crucial to ensure that only current employees receive the correct pay. Further, the absence of a review of payroll transactions together with the delay in preparation of bank reconciliations could result in fraudulent payments to ghost employees.

The Administrative Assistant is the only employee with access to the Virginia Retirement System (Retirement) benefit management system. This employee not only prepares payroll, but also performs all Human Resources activities. The Administrative Assistant has the ability to make changes at will in the payroll and retirement systems; perform the monthly contribution confirmation; and submit the retirement contribution payment. While the Administrative Assistant completed these tasks properly and timely during fiscal year 2014, management did not review these transactions, and there is no one with the knowledge or ability to perform these tasks in the Administrative Assistant's absence. The Executive Secretary and Assistant Executive Secretary have been approved for Retirement access but neither have taken the required training. The lack of segregation of duties coupled with the lack of review of payroll transactions increases the risk for inappropriate postings to the Retirement system.

Only the Assistant Executive Secretary or the Administrative Assistant review cash collections, but there is no documentation that this review occurs. Commission cash collection procedures require that the Executive Secretary perform at least a weekly review, as the Assistant Executive

Secretary is responsible for completing the daily deposit and making the deposit at the bank. Lack of consistent and documented review by the Executive Secretary increases the risk of manipulation or mishandling of cash collections.

The Executive Secretary needs to devote an additional portion of his time to oversee the financial administration of the Commission and ensure that proper controls are in place to properly safeguard Commission assets. This includes systematic review of all payroll transactions, retirement contributions, and cash collections by the Executive Secretary, and timely reconciliation of all bank accounts and subsequent review.

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

	2013	2014
Virginia appropriations	\$148,750	\$148,750
Maryland appropriations	140,000	140,000
Federal grant	109,024	50,030
Sport fishing licenses	144,926	152,103
Commercial fishing licenses	76,215	77,545
Commercial crab licenses	70,820	71,500
Commercial oyster licenses	46,610	35,030
Commercial license surcharge	35,950	34,800
Oyster bushel tax	3,415	2,317
Interest and miscellaneous	27,466	25,682
Total revenue	\$803,176	\$737,757

Source: Commission's financial system

The Commission's revenues decreased by eight percent for fiscal year 2014 mainly due to a fifty percent decrease in the federal grant received from the Atlantic Coastal Fisheries Cooperative Management Act, a twenty-five percent decrease in commercial oyster licenses, and a three percent decrease in the commercial license surcharge. These decreases were offset by an increase in the sale of sport fishing and commercial licenses and additional participation in the oyster management reserve program, discussed below. Sport fishing license revenues continue to trend upwards; however, the upward trend in total for all commercial licenses has begun to even out and for fiscal year 2014, actually decreased.

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

Commission Expenses

	2013	2014
Personnel services	\$373,605	\$405,662
Development and repletion	106,526	135,849
Federal grant	105,565	42,705
Contractual services	89,864	80,333
Materials and supplies	56,073	59,789
Insurance	7,426	14,218
Fixed assets	844	4,909
Operating Expenses	739,903	743,465
Reserve Fund Deposits for:		
Oyster development	42,473	-
Retiree health care	75,000	53,500
Reserve Expenses	117,473	53,500
Total Expenses	\$857,376	\$796,965

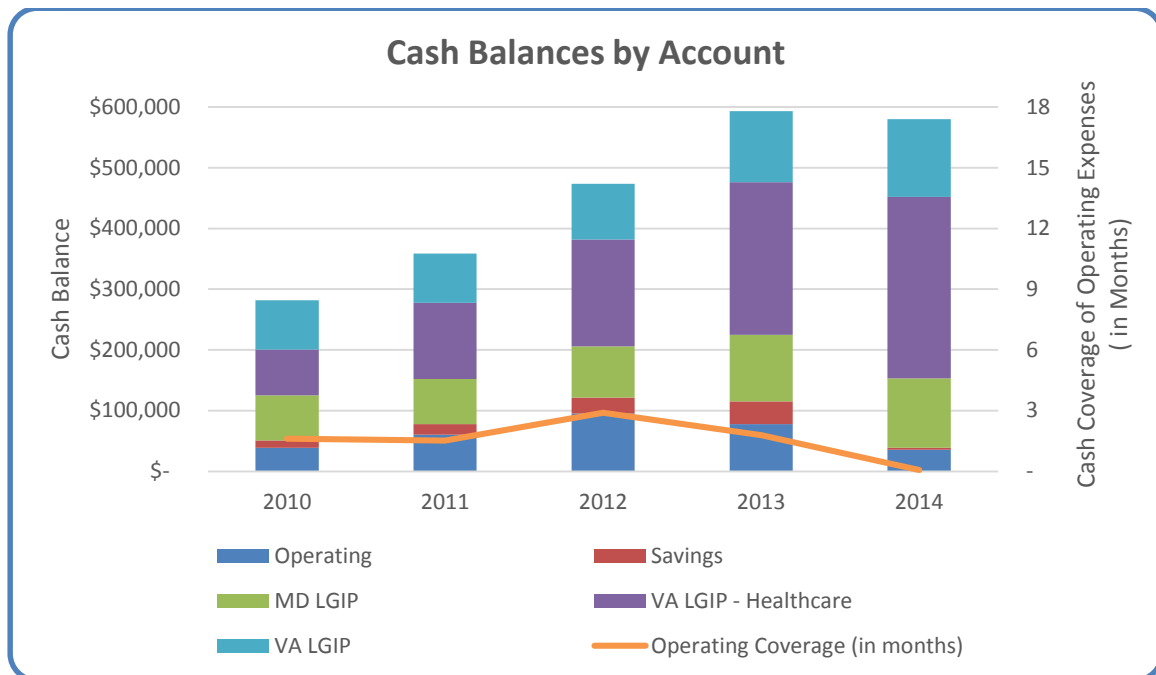
Source: Commission's financial system

Total expenses decreased by \$60,411 or seven percent from fiscal year 2013. This is attributable in part to the reduction in grant expenses and no funding for the oyster development reserve. Expenses did not decrease at the same rate as the decrease in revenues, in part due to a nine percent increase in personnel services. The increase in personnel services included healthcare premium increases and a one-time payout to the retired Executive Secretary for leave balances. Increasing costs coupled with decreasing revenues could be a concern for the Commission in the future.

The Commission closed fiscal year 2014 with an operating loss of \$5,708. After factoring in the reserve expense of \$53,500, the Commission's total loss was \$59,208. Fiscal year 2013 was the first year in over five years that the Commission did not realize a net gain.

The ability of the Commission to continue to retain more cash each year is dependent on whether they are proactive in holding down spending on operations and continue to bring in license revenues at increasing levels, thus making funds available to set aside each year for future liabilities and ongoing oyster programs. The Commission closed fiscal year 2014 with a cash balance of \$580,235, which was two percent below fiscal year 2013 levels. The cash balance includes \$242,788 in the Virginia and Maryland investment pool accounts and a separate Virginia investment pool account for retiree health care reserves, with a balance of \$298,941 as of June 30, 2014. Both of these accounts are restricted and can not be used to fund operations. The Commission has traditionally maintained sufficient operating cash to cover two to three months of expenses. Average monthly expenses have increased by approximately ten percent causing the drop in cash balance

and reducing the Commission's operating coverage to one-half month. The Executive Secretary and the Board will need to monitor this situation and make changes in operations if it continues.



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

May 18, 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 **Potomac River Fisheries Commission** 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 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 prior year reports.

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	Cash receipting
Contractual services expenses	License revenues
Payroll expenses	Federal grant revenues and expenses
Appropriations	

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 financial 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 financial system.

We noted certain matters involving internal control that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Commission has not taken adequate corrective action with respect to audit findings reported in the prior year and these are repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on May 28, 2015. 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:

WILLIAM L. RICE, SR. (MD)
Chairman

A.J. ERSKINE (VA)
Vice Chairman

S. LYNN HAYNIE (VA)
Secretary

IDA C. HALL (VA)

DENNIS C. FLEMING (MD)

THOMAS J. O'CONNELL (MD)

PHIL L. LANGLEY (MD)

JOHN M.R. BULL (VA)

MARYLAND - VIRGINIA
"Potomac River Compact of 1958"

Potomac River Fisheries Commission

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June 2, 2015

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 Commission for the 2014-2015 fiscal year, along with additional FY 2015-2016 observations. PRFC concurs with the findings of the audit report. PRFC agrees with the issues identified as areas of concern, including those related to the following:

- Daily Cash Report. Monitoring office transactions, bank deposits and associated appropriate documentation
- Timely Bank account reconciliations and associated appropriate documentation
- Review of payroll and associated appropriate documentation
- Access and administration of the Virginia Retirement System website for the Executive Secretary. Implement mandatory training for the Executive Secretary

PRFC also concurs with the audit's findings that the overarching fiscal condition is sound, but has relatively flat revenues with increasing trends in costs (disbursements). While not immediately problematic, this could be a concern for the Commission in the future if new or increased revenues are not realized.

We thank the auditors for their professionalism, and efforts to identify areas which need improvement. PRFC is already taking action to correct for these identified areas of concern.

Very Respectfully,

Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

COMMISSION OFFICIALS

(as of June 30, 2014)

POTOMAC RIVER FISHERIES COMMISSION Colonial Beach, Virginia

COMMISSIONERS

Virginia

Ida C. Hall, Chairman

John M. R. Bull

A. J. Erskine

S. Lynn Haynie

Maryland

Thomas J. O'Connell, Vice Chairman

William L. Rice, Sr., Secretary

Dennis C. Fleming

Phil L. Langley

Officers

Martin L. Gary, Executive Secretary

Michael C. Mayo, Legal Officer