

**DEPARTMENT OF CONSERVATION AND RECREATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

This report contains the results of our audit of the Department of Conservation and Recreation including the Virginia State Parks Foundation, the Virginia Outdoors Foundation, the Virginia Land Conservation Foundation, and the Chippokes Plantation Farm Foundation for the year ended June 30, 2002.

We found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance with material laws and regulations that are required to be reported; and
- adequate implementation of corrective action on prior audit findings.

We recommend that the:

- Department improve security controls for the Cisco external internet router;
- Department enforce small purchase charge card procedures; and
- Chippokes Plantation Farm Foundation record fixed assets timely.

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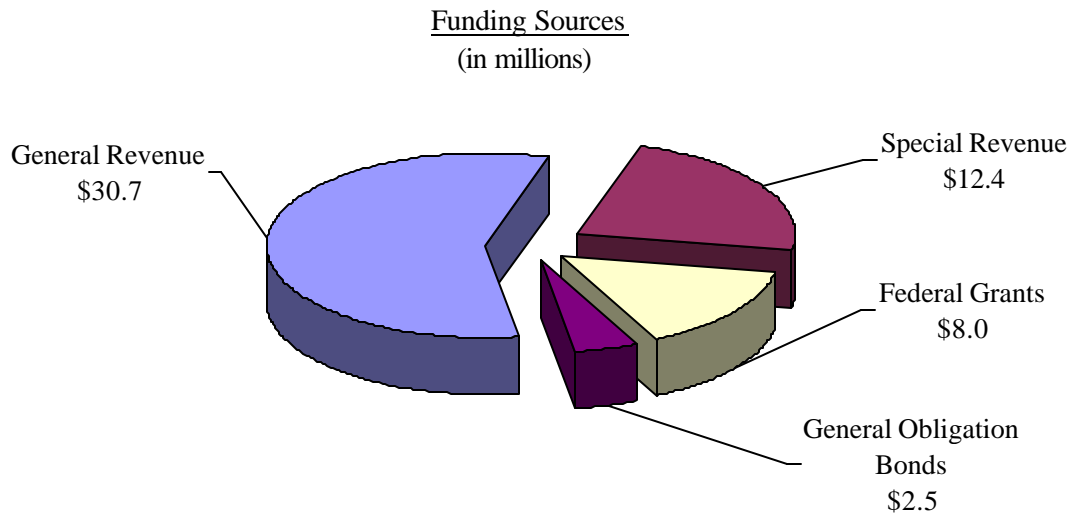
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AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

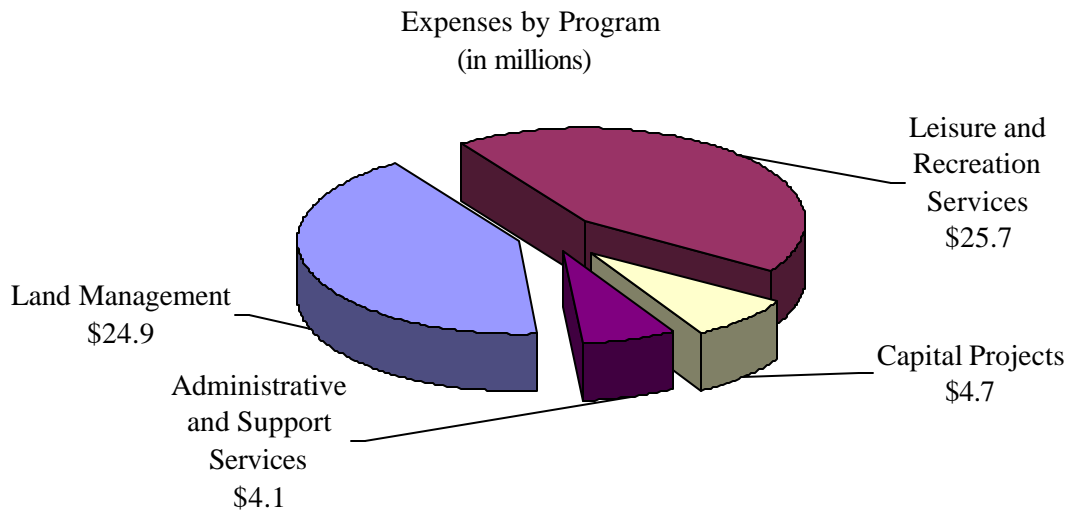
DEPARTMENT OF CONSERVATION AND RECREATION

The Department of Conservation and Recreation's programs seek to conserve, protect, enhance, and advocate the use of the Commonwealth's unique natural, historic, recreational, scenic, and cultural resources. The Department supports four foundations, which aid in its mission.

Funding for the Department in fiscal year 2002 totaled more than \$53.6 million, which consisted of general, special, and federal revenues, as well as general obligation bond proceeds. The following chart illustrates the total funding for the year.



The Department spent approximately \$59.4 million on programs and administrative support during fiscal year 2002. This includes approximately \$4.4 million and \$1.3 million in prior year proceeds from the Water Quality Improvement and the Land Conservation Funds, respectively. The following chart shows total expenses for these programs for the year.



Budget Reduction Effects

Amendments to the state budget during the 2003 session reduced the Department's general fund appropriations by \$4,490,418 in fiscal year 2003 and by \$5,673,319 in fiscal year 2004. The Department's maximum employment level was reduced from 414 positions to 395. While this is a net decrease of 19 positions, a total of 37 general funded full-time positions were either eliminated or transferred to other funding sources. According to the Department, the effect of these budget reductions will impact the following areas:

State Parks – The Department is reducing State Parks preventive maintenance projects by approximately 20 percent and redirecting those funds to operations, which will delay the replacement of vehicles and equipment that have passed their useful life expectancy. The Department will reduce state parks' wage staff during peak season as well as reduce travel, supplies, training, and other materials expenses associated with operations. The Department has also increased user fees for overnight rental of cabins and campsites by approximately 10 percent. This is in addition to the approximate 18 percent overall fee increase implemented by the 2002 Appropriation Act to also supplant general fund reductions.

Water Quality - The Department is reducing funds available for the Conservation Reserve Enhancement Program, and eliminating general fund support for developing Total Maximum Daily Load plans and the Shoreline Erosion Advisory Service program. These programs were designed to help reduce non-point source pollution and assist in the clean up of the Chesapeake Bay and other waters of the Commonwealth. The budget reductions also reduced funding available to localities and farmers for water quality improvements, reduced financial support to the Soil and Water Conservation Districts, and delayed completion of the National Soil Survey.

Natural Areas – The Department is reducing Natural Area resource management projects, identification work, and access to new Natural Areas. Additionally, the number of Natural Area acres treated with prescribed burns will be reduced, which could increase the risk of wildfires.

Other – Financial support is also being reduced to the Breaks Interstate Park and the Virginia Outdoors Foundation. The implementation of agency computer technology improvements has been scaled back.

General Obligation Bond Issue

In November 2002, voters approved a General Obligation Bond issue of \$119.04 million, known as the Commonwealth of Virginia Park and Natural Areas Bond Act of 2002. This Act commits funding for the following items.

1. \$36.5 million for acquisition of land for Natural Area Preserves and Parks and acquire in-holdings and adjacent properties
2. \$19 million for facility repairs
3. \$63.54 million for construction projects.

Department Organization

The Department has seven divisions: Administration, Finance, State Parks, Soil and Water Conservation, Dam Safety, Natural Heritage, and Planning and Recreation Resources.

Administration

The Administration Division provides executive management, human resources, information systems, procurement, and public information support to the Department and its Divisions.

Finance

The Finance Division does payroll and grant accounting, maintains petty cash, and sets the Department's financial reporting policies and procedures. Finance also provides fiscal support to the Virginia State Parks Foundation, the Virginia Land Conservation Foundation, and the Virginia Outdoors Foundation.

State Parks

The Division of State Parks operates 28 state parks and six historic sites and natural areas. Through interpretive and environmental education programs at state parks, staff provide information to visitors to help them learn to conserve and protect the environment. State Parks provide outdoor recreational activities including camping, hiking, horseback riding, boating, fishing, swimming, and rental cabins. Some parks have visitor centers, conference facilities, and environmental education centers. State Parks generate revenue from various sources including timber sales, park admission, parking, and swimming fees; cabin, campsite, picnic shelter, conference facility, and boat rentals; as well as food, beverage and merchandise retail sales. Revenues from these activities totaled \$9 million in fiscal year 2002, which is an increase of \$1.2 million from fiscal year 2001 and reflects an increase in park attendance as well as fee increases that took effect in April 2002.

Soil and Water Conservation

The Division of Soil and Water Conservation has five units: Director's Office, Non-point Source Programs, Conservation Districts and Support Services and Programs, Chesapeake Bay, and Southern Rivers Watersheds.

The Director's Office manages the Division's fiscal resources, provides policy and planning direction, and oversees the program areas.

The Non-point Source Programs Section coordinates the Department's pollution control efforts and seeks to reduce non-point source pollution related to changes in land use. Programs administered by the section include: Erosion and Sediment Control, Storm Water Management, Nutrient Management, Data Management and Geographic Information System, Non-point Source Total Maximum Daily Load, Development, and Grants Management.

The Conservation Districts and Support Services and Programs Section provides administrative and financial management support to 46 local soil and water conservation districts. Soil and Water Conservation Districts are political subdivisions that operate at the county or city level and pool local, state, federal, and private resources to protect and preserve natural resources and reduce non-point source pollution from agriculture and urban activities. Other programs administered by the section, such as the Agricultural Incentives Best Management Practices Program, the Shoreline Erosion Advisory Service and Stream Bank Stabilization, and Floodplain Management seek to reduce non-point source pollution and protect life and property through volunteer incentives and technical assistance.

The Chesapeake Bay and the Southern Rivers Watersheds Sections have technical staff located in nine regional watershed offices. Staff actions target efforts to reduce and prevent non-point source pollution.

Regional staff work closely with local governments and organizations on the planning and implementation of programs to improve the quality of soil and water resources.

Dam Safety

The Division of Dam Safety administers the Virginia Dam Safety Act using regulations issued by the Virginia Soil and Water Conservation Board. The Division conducts a certification program to monitor approximately 1,400 man-made dams throughout the Commonwealth. The Dam Safety Act authorizes the Department to cause the lowering or drainage of any dam determined to be unsafe.

Natural Heritage

The Division of Natural Heritage inventories the Commonwealth's rare, threatened, and endangered plants, animals, and natural communities, and provides data for conservation and natural resource decisions. The inventory program is part of an international network of Natural Heritage programs and Conservation Data Centers in all 50 states, Canada, and 13 countries of Latin America. Natural Heritage maintains site-specific data on over 9,000 locations for Virginia's 1,650 rare species and natural communities, and responded to over 3,000 information requests in 2002.

Natural Heritage acquires land for natural areas with bond funds, donated funds, grants, and funds from the state income tax check-off system. State Natural Area Preserve Designation provides statutory protection against conversion to alternate uses.

The Virginia Registry of Natural Areas, a non-binding, non-regulatory program, recognizes property owners who voluntarily act to safeguard natural areas. Through its Stewardship Program, Natural Heritage conducts land management activities with landowners.

Planning and Recreation Resources

The Division of Planning and Recreational Resources provides short and long-range planning for the development and use of natural and recreational resources. The Division has two units: the Planning and Grants Unit and the Design and Construction Unit.

The Planning and Grants Unit prepares the Virginia Outdoors Plan every five years and has recently completed the 2002 Virginia Outdoors Plan. The Virginia Outdoors Plan is the Commonwealth's comprehensive outdoor recreation plan, which provides guidance in acquiring, protecting, and developing recreational and open space resources. The plan assesses current outdoor recreation areas and facilities, and determines the existing needs and who is responsible for developing them. The plan also qualifies Virginia for federal Land and Water Conservation Funds.

The Design and Construction Unit implements capital outlay and maintenance reserve projects for the State Park System and natural areas. In addition the unit will manage the projects under the Commonwealth of Virginia Park and Natural Areas Bond Act of 2002, mentioned above.

In 1992, the Voters approved a General Obligation Bond issue of \$95.3 million, known as the 1992 Parks and Recreational Facilities Bond. Since the approval, Design and Construction has had responsibility for the planning and implementation of over 300 projects identified in the 1992 Parks and Recreational Facilities Bonds. As of June 30, 2002, the Department expended or obligated \$95.09 million of the \$95.3 million, with the rest of the funds designated for the acquisition of state park land or natural areas. At fiscal year-end, three projects remained in either the design or construction phases.

FOUNDATIONS

Virginia State Parks Foundation

The Virginia State Parks Foundation assists the Department in conserving the state's parks and natural areas. The Foundation accepts gifts of money, securities, or other property designated for conserving and maintaining Virginia's parks and natural areas. The Department processes the Foundation's financial transactions, maintains its accounting records, and prepares the Foundation's financial reports and board minutes.

During fiscal year 2002, the Foundation received \$50,848 in contributions, rents, and interest revenue and spent \$59,591 for various projects and events. The Foundation's investments in the Local Government Investment Pool managed by the Treasurer of Virginia totaled \$153,585.

As a result of legislation enacted in the 2003 General Assembly session, the State Parks Foundation will merge into the Board of Conservation and Recreation effective July 1, 2003.

Virginia Outdoor Foundation

The Virginia Outdoors Foundation promotes the preservation of open-space lands and encourages private gifts of money, securities, land or other property to preserve the natural, scenic, historic, scientific, open-space, and recreational areas. The Foundation processes its financial transactions and maintains the related accounting records.

During fiscal year 2002, the Foundation received \$808,135 in appropriations, contributions, interest, and other miscellaneous income and spent \$977,859 for salaries and wages, and various projects. The Treasurer of Virginia maintains the Foundation's investment of \$1,526,410 in the Local Government Investment Pool. The Foundation also manages an account for the Open Space Lands Preservation Trust Fund. At fiscal year-end, the account totaled \$347,466.

Virginia Land Conservation Foundation

The Virginia Land Conservation Foundation purchases fee simple title to or other rights, interests, or privileges in property. The Foundation purchases land to protect or preserve ecological, cultural, or historical resources, lands for recreational purposes, state forests, fish and wildlife habitats, natural areas, open spaces, and agricultural and forest lands. The Foundation can make grants to state agencies and the Virginia Outdoors Foundation. The Foundation may also provide matching grants to localities and to "holders" under the Virginia Conservation Easement Act. During fiscal year 2002, the Foundation received \$160,592 in interest earnings.

Chippokes Plantation Farm Foundation

The Chippokes Plantation Farm Foundation plans, manages, and provides financial and material resources and technical assistance for the development, maintenance, and operation of the Chippokes Plantation Model Farm and the Agriculture and Forestry Center. The Farm and the Forestry Center are located at the Chippokes Plantation State Park in Surry County. The Department acts as a fiscal agent for the Foundation.

During fiscal year 2002, the Foundation received \$264,192 in appropriations and \$88,099 in rental on land and buildings, donations, interest income, and admission receipts. The Foundation spent \$285,381 for museum operating expenses, administrative expenses, farm management, and other miscellaneous expenses.

The 2003 session's amendments to the state budget directed the Director of the Department of Conservation and Recreation to submit an operating plan to the General Assembly by July 1, 2003 for the Foundation's possible merger into the Department in the future.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Improve Security Controls for the Cisco External Internet Router

The Department's router for its Wide Area Network has insufficient controls in place to ensure its security and reliability. Specifically we found that the current controls could not prevent unauthorized access to the router from within the Department of General Services' campus network nor prevent attacks on the router that could limit or stop its functionality. We also noted that the Department had not 1) changed the default password for telnet access, 2) encrypted the passwords in the router configuration file, and 3) there are no controls for idle session timeouts if the router remains unattended while logged on.

We recommend the Department place the proper security controls on the router that will serve as a safeguard against unauthorized access to critical information.

Department Response:

In commenting on APA's recommendation, the Department stated that their network technician has changed the default password, encrypted passwords in the configuration file, and implemented controls for idle session timeouts. With respect to the remaining weaknesses, the Department has contacted the Department Information Technology (DIT), from whom the router is leased. Because DIT maintains this router, the network technician is not familiar with the required settings.

The effectiveness of the Department's corrective action has not been evaluated.

Enforce Small Purchase Charge Card Procedures

The Department should enforce the procedures established for managing the small purchase charge card program. The Department has issued charge cards to approximately 218 employees and employees purchased over \$2.6 million in various goods and services under the program during fiscal year 2002. The agency has developed policies and procedures to ensure that all purchases made using the charge cards follow state guidelines. However, we found the following specific internal control weaknesses relating to charge card usage.

- Personnel sometimes split the purchase of items between two or more transactions to avoid individual transaction limits established by the agency. In two of the eight purchases tested, we noted split purchases that exceeded the cardholders' single purchase transaction limits.
- Personnel are not always tracking their purchases in accordance with state guidelines. Two of eight cardholders tested did not properly track their purchases on a Master Purchasing Log. Failing to do this hinders attempts to properly identify and document any discrepancies between the purchasing log and the card member statement.
- Personnel do not always retain adequate support for purchases made with charge cards. In five of the 16 purchasing logs tested, employees did not always retain proper documentation to support purchases.

- In six of the 16 purchasing logs tested, we noted that employees sometimes pay state sales tax when using their charge cards even though the Department is exempt from paying this tax on most items.

We recommend that the Department enforce compliance with its internal and state small purchase charge card procedures. Supervisors should review all charge card transactions to determine which employees require additional training or that the Department should take other actions to control the card's usage. Finally, in accordance with state guidelines, the Department should consider suspending the charge card accounts of employees who attempt to circumvent transaction limits by splitting purchases.

Department Response:

In commenting on the APA's finding, the Department did not dispute the findings. They stated that they were aware of many of the findings cited above from their periodic internal reviews and had provided proper guidance to cardholders at that time. The Department said they are developing a training program for all cardholders and will make sure that our findings are addressed as part of the program.

The effectiveness of the Department's corrective actions has not been evaluated.

Update FAACS Timely

The Chippokes Plantation Farm Foundation needs to add all capital assets valued at \$5,000 or greater to the Fixed Asset Accounting and Control System (FAACS) in a timely manner. We found two instances of assets not properly recorded on FAACS. One asset had not been recorded for 18 months and the other asset remains unrecorded.

Chippokes' management should inventory all of their assets to determine which capital assets require recording on FAACS. Management should also develop procedures to record capital assets to FAACS in a timely manner.

Foundation Response:

In commenting on the APA's recommendation, the Foundation stated that it agreed with the recommendation. Additionally, the Foundation stated additional training will be provided to staff members to capture capital assets in an accurate and timely manner in the future.

The effectiveness of the Foundation's corrective action has not been evaluated.

May 22, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Conservation and Recreation**, including the Virginia State Parks Foundation, the Virginia Outdoors Foundation, the Virginia Land Conservation Foundation, and the Chippokes Plantation Farm Foundation for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts
Expenditures
Capital Outlay

Grants Management
Cash and Investments
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department'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 and regulations.

The Department'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department of Conservation and Recreation and the related Foundations properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Foundations' financial records. The Department and the Foundations record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Foundations' financial records.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions for the Department of Conservation and Recreation and the Chippokes Plantation Farm Foundation. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions for the Department, entitled "Implement Security Controls for the Cisco External Internet Router," and "Enforce Small Purchase Charge Card Procedures," as well as a reportable condition for the Chippokes Plantation Farm Foundation entitled "Update FAACS Timely" are described in the "Internal Control Findings and Recommendations" section of the report. We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 22, 2003.

AUDITOR OF PUBLIC ACCOUNTS

JMS:whb
whb:84

DEPARTMENT OF CONSERVATION AND RECREATION
Richmond, Virginia

Joseph H. Maroon
Director

VIRGINIA STATE PARKS FOUNDATION

Susan L. Byrd
Acting Chairman

VIRGINIA OUTDOORS FOUNDATION

Paul G. Ziluca
Chairman

VIRGINIA LAND CONSERVATION FOUNDATION

W. Tayloe Murphy, Jr.
Chairman

CHIPPOKES PLANTATION FARM FOUNDATION

Senator Frederick M. Quayle
Chairman