

AUDIT SUMMARY

Our audit of the Chesapeake Bay Local Assistance Department for the fiscal year ended June 30, 1999 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance that are required to be reported.

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AGENCY OFFICIALS

May 8, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
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 **Chesapeake Bay Local Assistance Department** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, 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.

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:

Expenditures
Grants Management
Payroll

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 properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its 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.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

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.

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 1, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Chesapeake Bay Preservation Act (Bay Act) requires localities within the Tidewater area of Virginia to adopt programs to preserve water quality and protect the Chesapeake Bay and its tributaries from pollution attributable to land use and development. The Tidewater area includes 17 cities, 38 towns, and 29 counties. The Chesapeake Bay Local Assistance Department provides these local governments with financial and technical assistance.

The Department divided the implementation of the Bay Act and associated regulations into three phases. Phase I focuses on designating applicable areas and adopting performance criteria for lands within the areas. Phase II concerns integrating water quality improvement measures into local comprehensive plans. Phase III calls for localities incorporating specific water quality improvement measures into their zoning, subdivision, and erosion and sediment ordinances. The Department evaluates each adopted local government program using a consistency (compliance) checklist and bases its findings on the use of the checklist during preliminary reviews. From this review, the Department issues a report finding the locality consistent or non-consistent with applicable phases of the Bay Act.

As of the date of our report, the Department has found 82 of 84 localities to be consistent with Phase I and 26 consistent with Phase II requirements. The Department has taken action to facilitate the two localities not consistent with Phase I. Phase II consistency reviews occur whenever localities make any changes to their comprehensive plans or every five years, whichever is first. The Department has scheduled Phase II reviews through the Year 2004.

The Department's financial assistance consists of competitive grants to localities and providing direct funding to Soil and Water Conservation Districts.

Competitive Grants Program

The Competitive Grants Program distributes monies to counties, cities, towns, and planning district commissions. The recipients use the money to implement the Bay Act and applicable area designation and management regulations.

The Department uses a competitive grant process to determine annual aid to localities and planning districts. Staff evaluate proposals on their merits and consider the relationship to local program needs, cost effectiveness, and the number of jurisdictions served. Other considerations include water quality improvement potential, fiscal stress, and past grant performance.

In fiscal year 1999, \$571,962 was appropriated for competitive grants and the Department distributed reimbursements totaling \$417,261 to localities. Of this amount, \$208,406 related to current year grants and \$208,855 for prior years' grants.

Soil and Water Conservation Districts

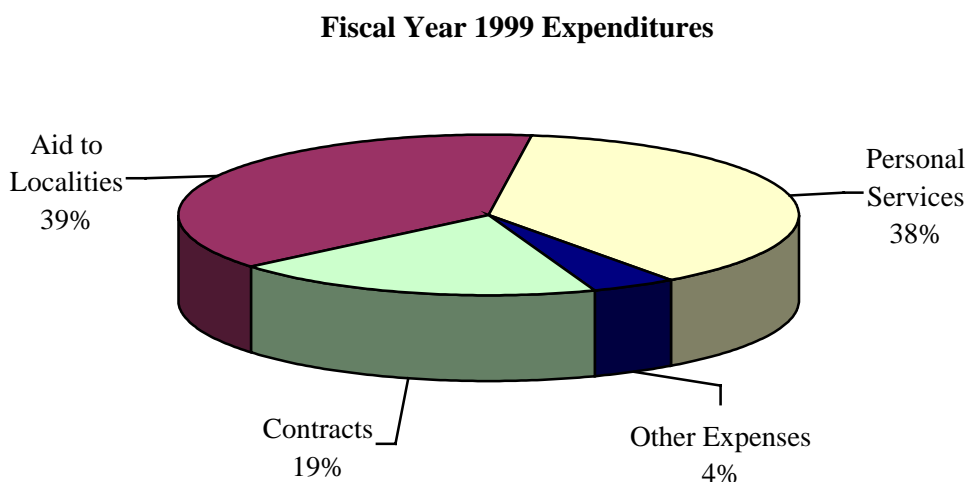
The Department provides funds to those soil and water conservation districts within Tidewater that employ agricultural water quality specialists to work with farmers in developing conservation plans and implementing best management practices to preserve water quality. Each district has a conservation plan for the agricultural land within their area. Conservation plans outline landowner's or farmer's responsibilities for soil erosion and nutrient management. Districts receive quarterly payments based on the number of conservation plans met. If a district has not met all requirements by the end of the fiscal year, the Department withholds or reduces funds allotted for the next fiscal year.

In fiscal year 1999, 11 soil and water conservation districts received a total of \$457,129, which is an increase of \$74,192 over the prior year.

The Department provides Tidewater localities and planning districts with technical assistance on land use management and water quality protection. The Department conducts site plan reviews and provides training and education services. Technical assistance is available for a wide range of issues including computer applications, geographic information systems, and regulatory and policy guidance.

General Information

The Department received \$2,766,412 in general funds appropriations. Expenses totaled \$2,344,760 and consisted of financial aid to localities (\$903,536), personal services (salaries and fringe benefits, \$883,170), contracts (\$452,790), and other expenses (\$105,264). The following graph shows the agency's expenses broken down by category.



The amounts distributed under the competitive grant reimbursements and soil and water conservation district payments are included in Aid to Localities. Contracts consisted primarily of payments to various state institutions for services related to the Polecat Creek Water Project in Caroline County. This project, which began in 1993, is a ten-year study designed to determine the effectiveness of state and local regulations promulgated under the Chesapeake Bay Preservation Act in preserving water quality in the Polecat Creek watershed. Other expenses include equipment, supplies, and utilities costs.

CHESAPEAKE BAY LOCAL ASSISTANCE DEPARTMENT
Richmond, Virginia

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