

DEPARTMENT OF GAME AND INLAND FISHERIES

**REPORT ON AUDIT
FOR THE PERIOD
APRIL 1, 2007 THROUGH MARCH 31, 2008**



AUDIT SUMMARY

Our audit of the Department of Game and Inland Fisheries (Game) for the period April 1, 2007 through March 31, 2008 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- noncompliance with the Virginia Information Technologies Agency's Security Standard but no other 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

Retain Documentation of Monthly Purchasing Reviews

Game has established procedures to review purchase activity monthly. In addition to supervisory reviews of procurement logs monthly, the Accounting Manager, along with the Administrative Services and Purchasing Directors, must review all purchases over \$1,500 and an additional sample of ten percent of employees' purchase logs. The Accounting Manager matches the selected purchases to supporting documentation, reviews them for proper approvals, and evaluates them for reasonableness.

As noted in our prior audits, for some of the monthly reviews tested, the Accounting Manager could not provide documentation to support the discussion and resolution of issues he discovered. We again recommend that the Accounting Manager retain documentation as evidence that he is performing the reviews and to support his conclusion that staff explanations are reasonable for exceptions he finds.

Provide Sufficient Password Controls

Game has drafted, but not approved or implemented, new password management controls, and therefore, Game does not have sufficient password controls. For example, passwords do not expire after a period of time, allowing users to keep their passwords indefinitely. This process increases the risk that others will learn passwords of co-workers and use them to gain unauthorized access.

Password aging, password history, and password complexity are part of strong password controls. Game needs to integrate these password controls into their existing system to decrease the risk of unauthorized access. Game should finalize and implement their draft policies and procedures over password controls. In addition, password controls are required as part of the Virginia Information Technologies Agency security standard and are industry best practices.

Improve Information System Security

Game has not documented a risk assessment of its information technology (IT) infrastructure, business impact analysis, or systems monitoring processes and related policies and procedures. Without documenting and implementing systems security controls Game is susceptible to potential risks and threats that target critical and essential business functions and the related IT systems and data. Additionally, system monitoring is a key performance indicator of the strength of an information systems security program.

Game should develop, implement, and maintain sufficient policies and procedures to protect its information systems, and to continue the essential business functions needed to meet its mission in the event of a disaster or service disruption. Game should also develop and implement policies and procedures for system monitoring to increase controls against potential information system risks and threats.

AGENCY BACKGROUND

Game manages Virginia's wildlife and inland fish to maintain optimum populations of all species; provides opportunity for all to enjoy wildlife, inland fish, boating, and other outdoor recreations; and promotes safety for persons and property in connection with boating, hunting, and fishing. Major sources of revenue include hunting, fishing, and motorboat licensing; boat sales and use taxes; wildlife-related sales taxes; and federal grants.

Game enforces laws for the protection, propagation, and preservation of wildlife and fish; assists in enforcing all forestry and boating laws; and seeks to optimize game and fish populations. Game owns 35 lakes and operates an additional 165 lakes. Game maintains over 1,000 miles of roadways and manages 186,000 acres of land on 33 wildlife management areas. Game also manages approximately 1.75 million acres of federal land mostly in national forests.

Game has five divisions and operates five regional and six district offices and nine fish hatcheries throughout the Commonwealth. The five divisions include Law Enforcement, Wildlife, Fisheries, Wildlife Diversity, and Administrative Services.

The Board of Game and Inland Fisheries, a supervisory board, oversees the department's operations and appoints the Executive Director, who serves as the principal administrative officer. The Board has 11 members, one from each congressional district, appointed by the Governor to four-year terms. The Board elects one of its members as its Chairman, who presides at all meetings of the Board, but who has no additional powers or authority other than those given to the other board members.

FINANCIAL HIGHLIGHTS

Table 1 presents Game's original and adjusted budget, by program, as well as their actual expenditures in those programs for fiscal year 2007. The wildlife and freshwater fisheries management program makes up the majority (73 percent) of Game's actual expenditures.

Table 1

Analysis of Budgeted Funding and Actual Expenditures – Fiscal Year 2007

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures</u>
Wildlife and freshwater fisheries management	\$38,630,313	\$39,292,510	\$35,379,447
Administrative and support services	5,905,660	5,905,660	5,902,188
Boating safety and regulation	5,143,529	6,165,729	5,453,580
Capital outlay projects	<u>16,100,000</u>	<u>16,204,000</u>	<u>2,033,140</u>
Total	<u>\$65,779,502</u>	<u>\$67,567,899</u>	<u>\$48,768,355</u>

Source: Commonwealth Accounting and Reporting System; 2007 Original Budget-Appropriation Act, Chapter 3

Game receives funding from several sources to pay for their programs including the sale of hunting and fishing licenses, boat registrations, federal grants and contracts, watercraft sales and use taxes, sales and use taxes collected from the sale of hunting and fishing related equipment, and voluntary taxpayer contributions to non-game wildlife as designated from their state income tax refund, to name a few.

Game indirectly receives General Fund revenue collections from a portion of the sales and use taxes derived from the sales of hunting and fishing products, up to \$13 million annually. These sales and use taxes

provided Game with \$10.6 million in fiscal 2007. Game also indirectly receives General Fund revenue collections from sales and use taxes on new watercraft sales and the Appropriations Act limited Game's fiscal 2007 share of these taxes to \$5.9 million. Quarterly, the Comptroller transfers the appropriate amount of collections from these taxes to the Game Protection Fund, which the Commonwealth classifies as a Dedicated Special Revenue fund. The Game Board manages the Game Protection Fund and uses it to pay salaries, allowances, wages, and expenses incidental to carrying out hunting, trapping, and inland fish laws.

The Game Board may also transfer up to fifty percent of the revenue generated annually from the sales and use tax to a Capital Improvement Fund to purchase, construct, maintain, or repair Game's capital assets. The Capital Improvement Fund may accumulate up to \$35 million, but if it accumulates more than \$35 million then the sales and use taxes remain in the General Fund until the Capital Improvement Fund is less than \$35 million.

Table 2 below provides a breakdown of Game's revenue and transfers from the General Fund:

Table 2

Details of Game's Actual Revenue and General Fund Transfers – Fiscal Year 2007

<u>Source</u>	<u>Amount</u>
Hunting and fishing licenses	\$22,577,795
Net transfers to the Game Protection Fund from General Fund sources	16,291,132
Federal grants and contracts	10,649,212
Other, including insurance proceeds, timber sales, publication sales	7,166,714
Boat licenses and watercraft titling fees	<u>3,579,586</u>
Total net revenue	<u>\$60,264,439</u>

Source: Commonwealth Accounting and Reporting System

Table 3 details Game's actual expenses by major object. In fiscal year 2007, personal services accounted for the majority of Game's expenses at 60 percent. Contractual services, at 21 percent, include expenses for communication services, repair and maintenance services, support services, and technical services.

Table 3

Expenses by Major Object - Fiscal Year 2007

<u>Major Object</u>	<u>Expenses</u>	<u>Percent</u>
Personal services	\$29,061,492	60%
Contractual services	10,084,766	21%
Supplies and materials	3,136,205	6%
Equipment	2,699,591	5%
Continuous charges	2,294,629	5%
Plant and improvements	895,749	1%
Transfer payments	403,924	1%
Property and improvements	<u>191,999</u>	<u>1%</u>
Total expenses	<u>48,768,355</u>	<u>100%</u>
Less: capital outlay included above	<u>2,033,140</u>	
Total operating expenses	<u>\$46,735,215</u>	

Source: Commonwealth Accounting and Reporting System

Comparing revenues in Table 2 to expenses in Table 3, we found that Game's revenues were sufficient to cover their operating expenses. However, Game's operation is highly dependent on receiving a portion of the General Fund's sales and use taxes. In summary, Game's fees for licenses as well as the Federal grants they receive are not sufficient to sustain their current operations, excluding any capital outlay.

Game's capital outlay expenses of \$2 million for fiscal year 2007 included \$.8 million for renovation of fish hatcheries. Additionally, Game spent about \$.7 million for reconstruction of Upper and Lower Powhatan Lakes, \$.2 million for acquisitions of and repairs to wildlife management areas and facilities, \$.1 million for dam safety compliance and boating access repairs, and \$.1 million on the Marion Regional Office Complex; the remaining \$.1 million was for general maintenance. Game's projections show future capital outlay needs to remain fairly stable; although, the staff projects a shift in the nature of expenses. For example, Game anticipates an increased need for more outlay to pay for dam maintenance, which is necessary to bring Game-owned dams up to federal and state safety standards. Currently, Game plans to continue to pay for their capital improvements from the Game Protection Fund, but the Fund is not sufficient to sustain both operations and meet all their capital improvement needs beyond 2011.

Game management and the Game Board are aware of their financial situation, actively monitor trends, and project future activity in the areas that generate their revenue. For example, sales of hunting and fishing licenses are declining nationwide at an average rate of 1 percent annually and Game's analysis noted a similar decline of 1-3 percent in Virginia. In fiscal 2007, the Game Board authorized price increases to offset the declining sales and ensure Game continues to generate sufficient revenue levels. The Game Board carefully contemplated this rate increase before its approval due to concern that the increase would result in fewer license sales. Game has seen a license sale decrease of 1-2 percent since the price increase however overall revenue has increased because of the rate increase.

Game management also prepares detailed models that project revenue and expense trends. Their most recent model projection prepared for the Game Board's Finance, Audit and Compliance Committee in May 2007 gives projections through 2014. The model uses management's best estimate of sales trends, taxpayer contributions, new watercraft sales and renewals of existing watercraft registrations, predictions of personnel levels and operating expenses, as well as property improvements that they recommend. It is in the May 2007 model projection that Game estimates if current trends continue and Games continues to fund property improvements at their required levels, Game will run out of Game Protection Fund moneys beginning in fiscal year 2011 and will operate at a deficit. This model is an excellent tool that provides the Game Board with information so they can take action now that will prevent the trends from actually occurring. In order to be effective, it is important that Game regularly update the data and estimates used in the model so the Board can monitor and respond to changes in the trends.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

August 4, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Game and Inland Fisheries** (Game) for the period April 1, 2007 through March 31, 2008. 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 on the Commonwealth's Accounting and Reporting System, review the adequacy of Game's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

This year our audit consisted of a follow-up to prior recommendations and tests of transactions to determine that Game complied with their policies and procedures. In addition, we expanded our scope to include a follow-up review of certain information technology controls since Game is highly dependent on their information systems.

AUDIT SCOPE AND METHODOLOGY

Game'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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality, fraud risk, and control 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.

Payroll
Travel expenditures
Small purchase charge card transactions
Capital assets
Network security
Fleet management
Board policies

We performed audit tests to determine whether Game'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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Game's operations. We tested transactions and performed analytical procedures, including budgetary analyses.

CONCLUSIONS

We found that Game properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's Accounting and Reporting System. Game 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 Commonwealth's Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with the Virginia Information Technologies Agency's Security Standard that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Game has not taken adequate corrective action with respect to the prior year audit findings titled, "Retain Documentation of Monthly Purchasing Reviews" and "Provide Sufficient Password Controls" which are repeated again this year in the section entitled "Audit Findings and Recommendations."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on August 11, 2008. Management's response has been included at the end of this report.

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

KKH:alh



COMMONWEALTH of VIRGINIA

L. Preston Bryant, Jr.
Secretary of Natural Resources

Department of Game and Inland Fisheries

Robert W. Duncan
Executive Director

August 19, 2008

The Honorable Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
P. O. Box 1295
Richmond, VA 23218-1295

Dear Mr. Kucharski:

Thank you for the recommendations given to us during the exit conference on August 11, 2008. The Board of Game and Inland Fisheries (Board) and the Department of Game and Inland Fisheries (Game) share your goals with respect to ensuring an appropriate internal control environment and financial transparency within the Agency. We concur with your recommendations. Below is an outline of the actions Game and the Board have taken, or plan to take, to address your recommendations.

- Recommendation 1 Retain Documentation of Monthly Purchasing Reviews: Game will retain copies of all correspondence dealing with the Small Purchase Charge Card review in monthly folders along with support for sample selections.
- Recommendation 2 Provide Sufficient Password Controls: Password expiration, aging, history and complexity controls now comply with VITA standards. Password controls were updated on June 16, 2008 to comply with all VITA password control policies.
- Recommendation 3 Improve Information System Security: Game is in the process of updating all of its IT policies and procedures. Game will have the new policies and procedures in place by September 30, 2008. Game is currently scheduled to complete its IT risk assessment by December 31, 2008. Once the IT risk assessment is complete, Game will take actions to bring all identified risk within acceptable levels.

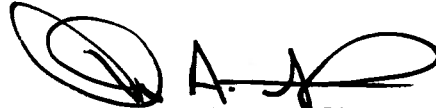
Mr. Walther J. Kucharski
August 19, 2008
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Again, thank you and your staffs valued input from the report and exit conference. We appreciate the opportunity to comment on these very important matters.

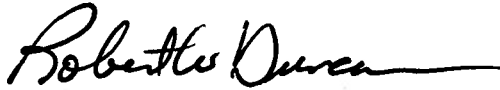


C. T. Hill, Chairman
Board of Game and
Inland Fisheries

Sincerely,



Thomas A. Stroup, Chairman
Finance, Audit and Compliance
Committee



Robert W. Duncan
Executive Director

DEPARTMENT OF GAME AND INLAND FISHERIES

BOARD MEMBERS

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