



POTOMAC RIVER FISHERIES COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, found:

- instances of incorrect recording and reporting of transactions in the Commission's financial system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- one instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Develop Strategy to Address Going Concern Issue

Type: Internal Control

Repeat: No

The Commission has a potential going concern issue, as it appears that they do not have the resources to continue operating without using their reserve funds. The Commission is not aggressively monitoring operating cash balances or developing strategies to increase revenues or decrease expenses. During fiscal year 2016, the Commission used \$70,000 in cash restricted for future projects to cover operating expenses when there was no operating cash available. As of June 30, 2016, the Commission had not reimbursed the reserve for these funds and did not reimburse the reserve until August 2016. Historically, the Commission takes from 52 to 131 days to repay the reserve funds. At the end of fiscal year 2016, the Commission's deficit for restricted funds totaled approximately \$90,000. In addition, the Commission continues to annually set-aside funds generated from operations to support future oyster work. The Commission experienced net losses in fiscal years 2014 and 2015 of \$54,000 and \$59,000, respectively. These increasing losses demonstrate the Commission's inability to operate with a positive cash balance. In addition, while, the Commission generated a profit of \$11,000 in fiscal year 2016; the need to replace two heating and air conditioning units totaling \$18,000, negated any cash generated and created an overall loss of \$7,000.

The Commission decided to fund two oyster preservation projects totaling \$400,000 over the past six years, and did not consider the toll these projects would take on operating expenses. They expected the programs to be self-sustaining; however, in addition to funding the projects at \$50,000 per year each, the Commission has also diverted certain revenues, which were previously used for operating expenses, for these projects. The diverted revenues include all oyster licenses, surcharges, inspection taxes, and identification tags.

The Commission needs to research ways to increase revenues and evaluate in detail where they can reduce expenses. In addition, the Commission needs to evaluate new projects in light of their mission and purpose, which is the responsibility for adopting the rules, regulations, and licenses for both commercial and recreational taking, catching, or attempting to catch fish, crabs, oysters, and clams from the tidal Potomac River waters. The Virginia Potomac River Compact of 1958 established the Commission to conserve and improve all valuable fishery resources of the river. While the preservation of the oyster population is important, concentrating all funding efforts in this area without regard for other areas of responsibility and the need for funds for ongoing administrative operations could result in the inability to remain a viable going concern.

Improve Financial Recording

Type: Internal Control and Compliance

Repeat: No

The Commission does not have accounting personnel with adequate knowledge of accounting standards to properly record and process the Commissions' uncommon financial transactions. This has resulted in various inaccuracies, as described below, in the Commissions' financial records.

During fiscal year 2016, the Administrative Assistant did not properly capitalize expenses for capital assets. The Commission replaced two HVAC units totaling \$18,502, which the Administrative Assistant expensed to "Building Maintenance" rather than capitalizing the units as "Building Improvements." The Commission's capitalization policy requires capitalization of all additions, renovations, and repairs to capital assets that increase the economic benefits of the assets. In addition, the policy requires capitalization for assets that have an expected useful life of greater than one year and a value or cost of \$5,000 or more at the date of acquisition.

The Administrative Assistant has not been reducing the retiree healthcare liability account and the corresponding company paid healthcare expense account for the annual costs since they started paying premiums for retirees in July 2012. The Commission reimbursed the operating account(s) from the retiree healthcare investment account for the premium amounts, but did not reduce the expense and liability accounts for these amounts. In addition, the Administrative Assistant did not adjust the liability account for interest earned. These errors resulted in an overstatement of the liability and expense accounts of \$35,060, of which \$24,767 was from prior periods and \$10,293 relates to fiscal year 2016.

Additionally, in completing the annual reimbursement from the healthcare investment account, the Administrative Assistant incorrectly calculated the annual expense amount resulting in a cumulative under-reimbursement of operating funds of \$4,044.

Finally, a review of the Oyster Management Reserve (OMR) revealed that the prior Executive Secretary incorrectly accounted for revenues and expenses of the reserve by removing them from Commission operations. The Commission collects the membership fees, pays the seeding expenses, and funded \$200,000 over four years (fiscal years 2012 through 2015). However, there is no trust or other legal document to require holding these funds for members of the reserve; therefore, there is no basis to exclude these transactions from the Commission's revenue and expense accounts. The incorrect accounting resulted in a prior period adjustment of \$37,434.

Overstatement of liabilities and expenses hinder the ability of the Commission to assess its financial position and make sound financial decisions. The Commission should provide the Administrative Assistant responsible for posting entries and accounting for Commission expenses appropriate and relevant training in proper accounting standards to enable her to record normal and uncommon transactions properly throughout the year. As the current Administrative Assistant is retiring in December 2017, the Commission should take the opportunity to hire a replacement who has experience and knowledge in proper accounting and bookkeeping procedures. In addition, the

Commission should ensure that the Executive Secretary has adequate knowledge of accounting procedures affording him the capability to determine that transactions recorded in the financial system are proper and correct.

Prepare Bank Reconciliations Timely

Type: Internal Control

Repeat: No

During fiscal year 2016, the Commission did not prepare bank reconciliations timely. The Commission holds five checking/savings accounts, which requires them to complete a total of 60 reconciliations. The Assistant Executive Secretary prepared reconciliations sixty to ninety days after month end for 15 reconciliations or 25 percent. Due to these issues, we expanded our review of reconciliations into fiscal year 2017. Between July 2016 and February 2017, the Assistant Executive Secretary prepared bank reconciliations for all accounts between 65 and 90 days after each month end for 60 percent of the reconciliations. In addition, the Executive Secretary did not monitor the completion of reconciliations to ensure that they were completed timely.

The Commission policy manual does not outline a timeframe for the completion of the reconciliations. Best practices suggest that the Commission should complete a reconciliation at least monthly to ensure that transactions are correct and no fraud has occurred. The Commission should establish guidelines for when reconciliations should be completed and update their policy manual.

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

	2015	2016
Virginia appropriations	\$148,750	\$148,750
Maryland appropriations	140,000	140,000
Federal and other grants	50,837	63,754
Sport fishing licenses	140,003	143,678
Commercial fishing licenses	79,350	76,880
Commercial crab licenses	68,580	68,545
Commercial oyster licenses	34,230	88,262
Commercial license surcharge	34,900	38,250
Oyster bushel tax	5,016	11,698
Interest and miscellaneous	28,727	35,868
Total revenue	\$730,393	\$815,865

Source: Commission's financial system

The Commission's revenues increased by 12 percent for fiscal year 2016 due primarily to increases in the sales of oyster licenses. These license revenues increased due to an increase in oyster production and allowing hand scraping of oysters around the Route 301 Bridge and at Swan Island. These two areas have never before been open for oyster harvesting.

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

Commission Expenses

Table 2

	2015	2016
Personnel services	\$398,085	\$400,186
Development and repletion	146,222	126,171
Federal grant	34,860	62,427
Contractual services	101,619	93,844
Materials and supplies	62,154	59,930
Insurance	(2)	7,176
Fixed assets	1,338	1,033
Total operating expenses	744,276	750,767
Reserve Fund Deposits for:		
Retiree health care	53,500	53,500
Total expenses	\$797,776	\$804,267

Source: Commission's financial system

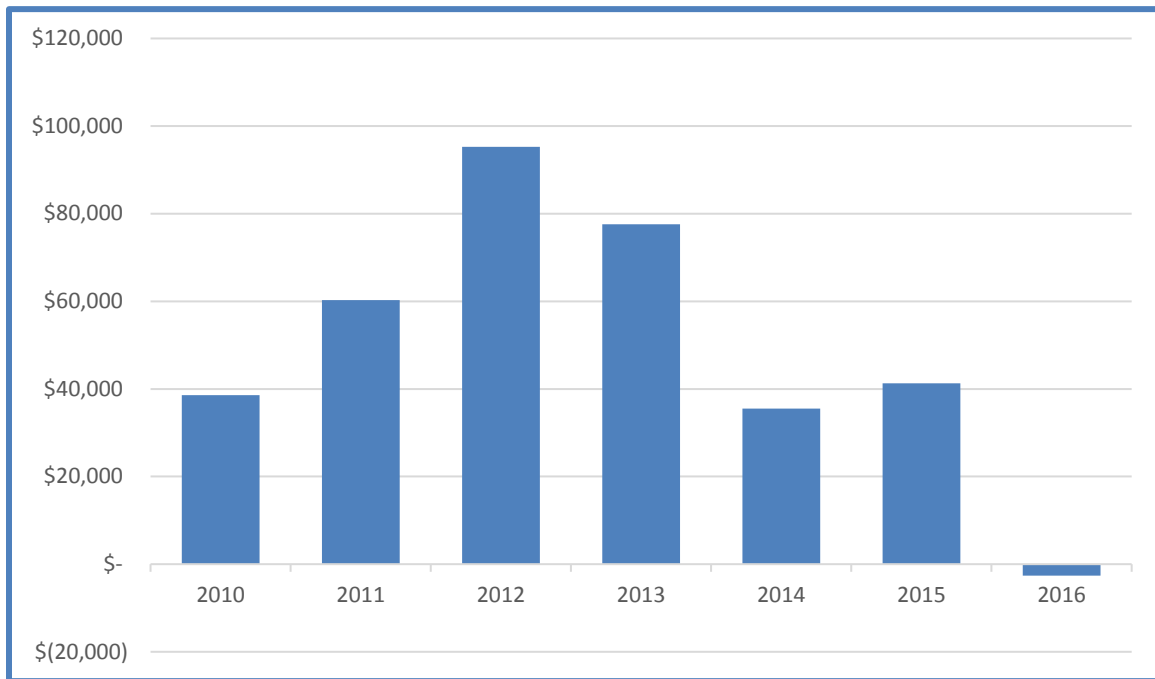
Total expenses were relatively stable over fiscal year 2016, increasing only one percent from fiscal year 2015. This is attributable in part to the end of funding for future oyster development and efforts to maintain level spending. However, increasing costs coupled with decreasing revenues could be a concern for the Commission in the future.

The Commission closed fiscal year 2016 with an operating profit of \$11,417, including funding of the retiree healthcare trust. This is the first time in the last four years that the Commission attained a profit.

However, the Commission is not retaining more cash each year and, in fact, ended the year with a negative balance in the cash-operating fund as shown in Chart 1 below. In addition, funds reserved for two oyster projects and authorized by the Commission in 2012 and 2013 are currently in a deficit situation, as the Commission has used the cash reserves to pay operating expenses. For further discussion on this issue, see the finding entitled "Develop Strategy to Address Going Concern Issue" in the section "Audit Findings and Recommendations."

Operating Cash Balances

Chart 1

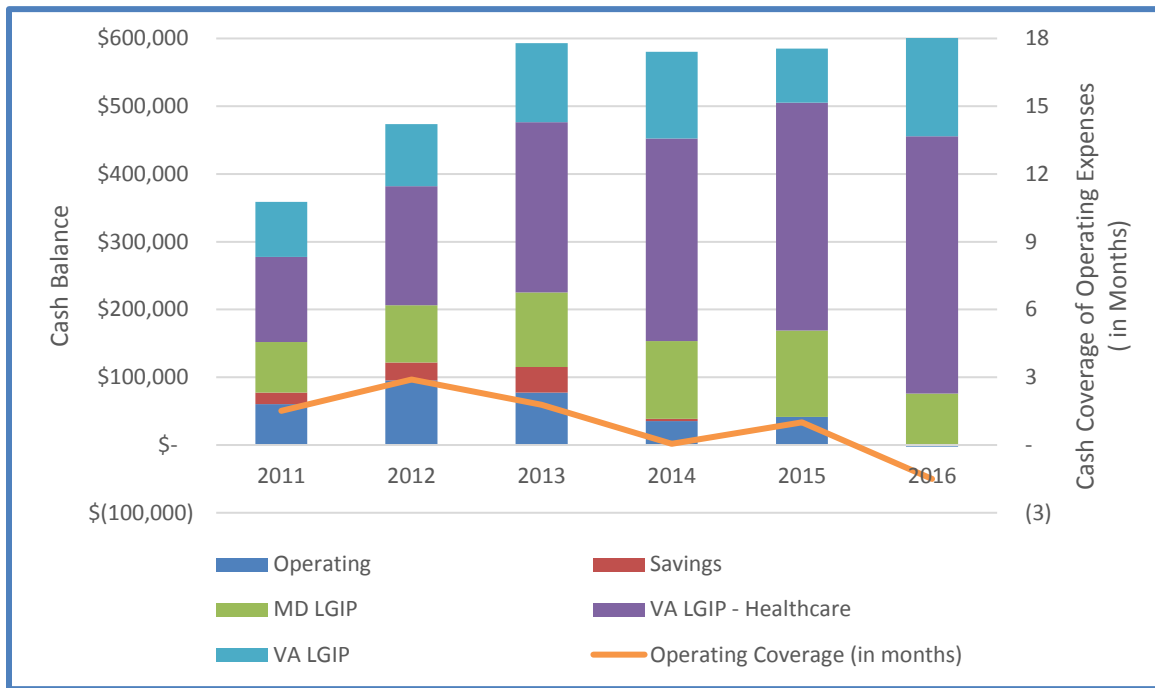


Source: Commission's financial system

The Commission closed fiscal year 2016 with an overall cash balance of \$622,312, which was a six percent increase (\$37,592) over fiscal year 2015 levels. The increase is due to the timing of expenses at year-end for the Oyster Management Reserve program in the Virginia investment pool account. The Commission had approximately \$62,000 in expenses related to fiscal year 2016 that they did not pay until fiscal year 2017. The cash balance includes \$245,467 in the Virginia and Maryland investment pool accounts to fund future oyster work and \$379,485 in a separate Virginia investment pool account for retiree health care reserves as of June 30, 2016. The retiree healthcare account is managed by a trust and legally cannot be used to fund operations. The Commission earmarked the other two accounts for the Oyster Management Reserve and Rotational Natural Oyster Harvest Program projects, and the Commission should not use the reserves to supplement operating cash. The Commission has traditionally maintained sufficient operating cash to cover two to three months of expenses. However, as shown in Chart 2 on the following page, as of June 30, 2016, the Commission did not have any operating cash on hand to cover future expenses. The Commission's contributions to the oyster programs and deflection of other revenues to these programs caused the drop in cash balances and reduced the Commission's operating coverage to a negative balance.

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

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August 21, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2016. 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, and test compliance with applicable laws, regulations, contracts, and grant agreements

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.

Capital assets
Operating expenses
Payroll expenses
Appropriations

Cash receipting
License revenues
Federal grant revenues and expenses

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, except as noted in the finding titled "Improve Financial Recording" in the section entitled "Audit Findings and Recommendations." 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 and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on August 22, 2017. 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

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MARYLAND - VIRGINIA
"Potomac River Compact of 1958"

Potomac River Fisheries Commission

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August 25, 2017

The Auditor of Public Accounts
P.O. Box 1295
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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 2015-2016 fiscal year. PRFC acknowledges the findings of the report.

PRFC agrees that there is need to address both revenues and costs associated with the operations of PRFC, and with discretionary spending in the programs that have been receiving a significant portion of PRFC funds relative to the overall budget. PRFC also agrees that remediation to address such is necessary, and has already begun steps to analyze options going forward.

We thank and appreciate the efforts of the audit team to identify and help us address these concerns and look forward to addressing them in the coming months.

Very Respectfully,

Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

POTOMAC RIVER FISHERIES COMMISSION

as of June 30, 2016

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