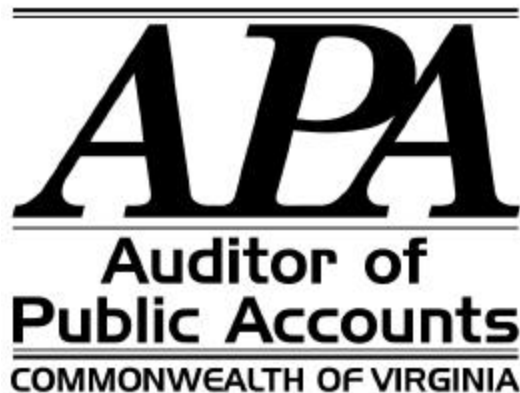


**DEPARTMENT OF CONSERVATION AND RECREATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



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, 2001.

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, but not material weaknesses;
- no material instances of noncompliance with applicable laws and regulations tested that are required to be reported; and
- adequate implementation of corrective action on prior audit findings.

We recommend that the Department properly classify expenses and the Virginia Outdoors Foundation improve internal controls over payroll.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT	1-2
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	3
AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS	
Department of Conservation and Recreation	4-6
Foundations	7-8
AGENCY OFFICIALS	9

May 13, 2002

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, 2001. 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
Expenses
Capital Outlay

Grants Management
Cash and Investments

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. 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, entitled "Properly Classify Expenses" and "Improve Controls Over Virginia Outdoors Foundation Payroll" are described in the section titled "Internal Control Findings and Recommendations." 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 30, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Properly Classify Expenses

The Department failed to properly classify expenses. Specifically, we found the following items.

- Five transactions classified and recorded as revenue refunds were actually expenses. Two were vendor payments that the Department processed as revenue refunds in error. The other three were payments to private groups or individuals that assisted the Department in conducting special events at state parks. The Department should record these payments as expenses to properly match program revenues with the corresponding direct expenses.
- Staff incorrectly coded two grants to non-governmental organizations totaling more than \$301,000 as land acquisitions. We also noted six vendor payments miscoded as capital lease payments in fiscal year 2002.

The Department should properly classify expenses. This will help ensure that information used for accounting control, financial management, and budgeting purposes is accurate. Further, properly classifying the direct expenses associated with revenue-producing events will help to more closely match revenues and expenses. The accurate matching of revenues and expenses will gain significance as the Commonwealth implements the provisions of Government Accounting Standards Board Statement #34 in fiscal year 2002.

Improve Controls Over Virginia Outdoors Foundation Payroll

The Virginia Outdoors Foundation failed to maintain adequate controls over its payroll. Specifically, we noted that the Foundation:

- Routinely processed wage employee time sheets without evidence of the required supervisory review. Fifteen of 27 time sheets tested did not have a supervisor's signature denoting approval.
- Estimated employee hours worked for the last two days of the month in order to process and distribute payroll by the end of the month. Further, the Foundation consistently paid one non-salaried manager based on estimated hours because the manager often failed to submit a time sheet. Staff adjusted for the differences between estimated and actual hours worked in the next pay period. This practice invites errors and increases the likelihood of falsifying time sheets to match estimated hours.

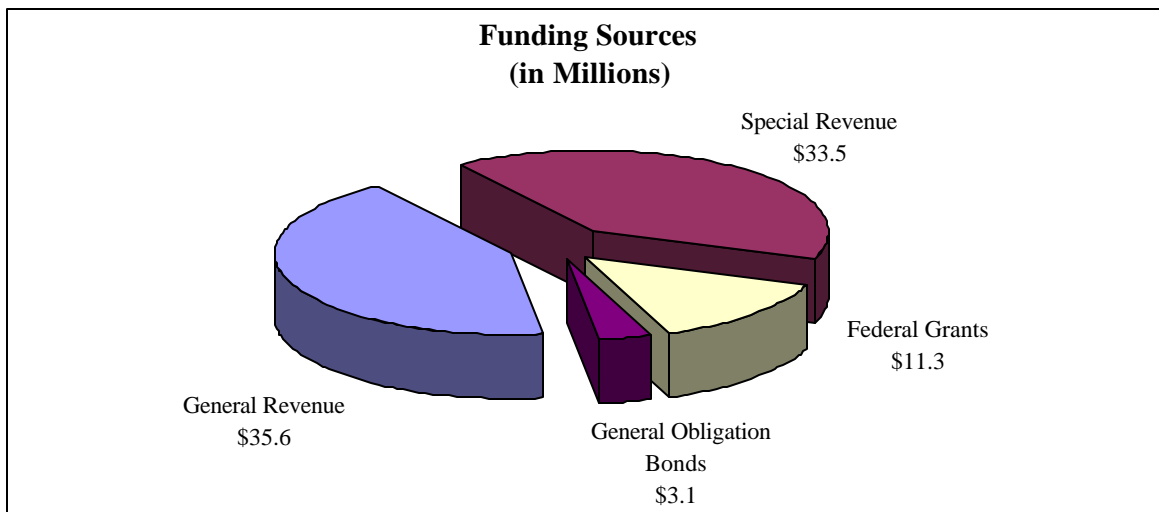
The Foundation should improve controls over payroll to ensure that employee pay is based on actual and not estimated hours worked, all employees submit time sheets, and supervisors review and approve time sheets. Strengthening these controls will greatly lessen the risk of payroll errors, omissions, and opportunities for fraud.

AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

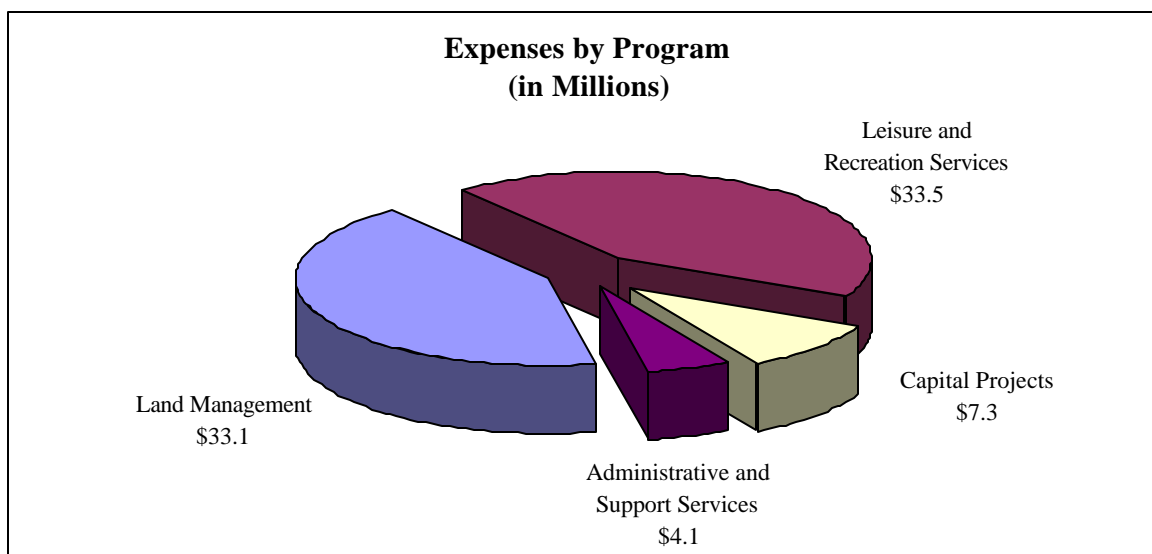
DEPARTMENT OF CONSERVATION AND RECREATION

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 2001 totaled more than \$83.5 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 \$78.2 million on programs and administrative support during fiscal year 2001. The following chart shows total expenses for these programs for the year.



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 \$7.8 million in fiscal year 2001. The sale of other state agencies' surplus property provided an additional \$60,890 for the State Parks Division during the fiscal year.

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 (GIS), Non-point Source Total Maximum Daily Load (TMDL), 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 works 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 almost 500 man-made dams throughout the Commonwealth. The Department has the authority to cause the lowering or drainage of any dam determined to be unsafe.

Natural Heritage

The Division of Natural Heritage inventories the Commonwealth's threatened, rare and endangered plants, animals, and natural areas, 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 8,000 locations for Virginia's 1,650 rare species and natural communities. Natural Heritage manages 30 natural area preserves.

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 is organized into 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 is currently working to complete the 2001 Virginia Outdoors Plan. It is currently in draft form. 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. For the past several years, Design and Construction has had responsibility for the planning and implementation of over 300 projects identified in the 1992 Parks and Recreational Facilities Bond Referendum. As of June 30, 2001, the Department expended or obligated \$92.8 million of the bond's \$95.3 million in available funds. At fiscal year-end, eight projects were either in 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.

In fiscal year 2001, the Foundation received \$100,733 in contributions, rents, and interest revenue and spent \$95,089 for various projects and events. The Foundation's investments in the Local Government Investment Pool managed by the Treasurer of Virginia totaled \$151,606.

Virginia Outdoors 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 2001, the Foundation received \$1,000,007 in appropriations, contributions, interest, and other miscellaneous income and spent \$857,463 for salaries and wages, and various projects. The Treasurer of Virginia maintains the Foundation's investment of \$1,658,722 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 \$128,342.

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 2001, the Foundation received \$9,198,511 in appropriations, donations, and interest.

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 2001, the Foundation received \$255,000 in appropriations and \$84,379 in rental on land and buildings, donations, interest income, and admission receipts. The Foundation spent \$230,401 for museum operating expenses, administrative expenses, farm management, and other miscellaneous expenses.

DEPARTMENT OF CONSERVATION AND RECREATION
Richmond, Virginia

David G. Brickley
Director

VIRGINIA STATE PARKS FOUNDATION

Dr. Carl E. Stark
Chairman

VIRGINIA OUTDOORS FOUNDATION

Paul G. Ziluca
Chairman

VIRGINIA LAND CONSERVATION FOUNDATION

John Paul Woodley, Jr.
Chairman

CHIPPOKES PLANTATION FARM FOUNDATION

Senator Frederick M. Quayle
Chairman