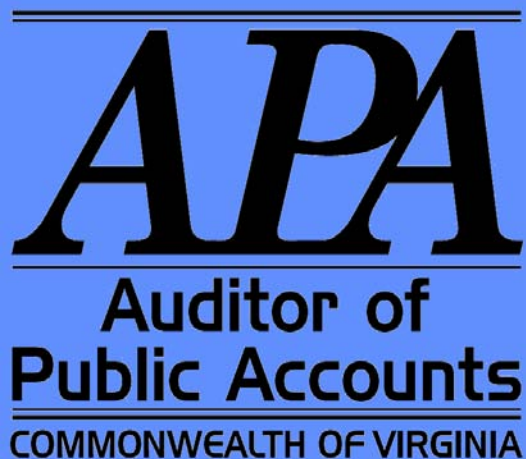


**DEPARTMENT OF GAME AND INLAND FISHERIES**

**REPORT ON AUDIT**

**FOR THE PERIOD**

**APRIL 1, 2008 THROUGH JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit of the Department of Game and Inland Fisheries (Game) for the period April 1, 2008 through June 30, 2009 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no 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.

### **Projected Funding of Future Operations** (page 7)

Comparing revenues to expenses, we found that Game's revenues were sufficient to cover their operating expenses. However, Game's operations are 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.

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; Game's analysis noted a similar decline of 1 to 3 percent in Virginia. Game has seen a license sale decrease of 1 to 2 percent since the price increase; however, overall revenue has increased because of the rate increase.

Game management 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 2008 gives projections through 2020. The model, based on a management study completed in February 2009, uses management's best estimates 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.

In the May 2008 model projection, Game estimates that, if current trends continue and Game continues to fund property improvements at their required levels, Game will run out of Game Protection Fund monies 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 to 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.

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## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **Conduct and Document Business Impact Analysis**

The Department of Game and Inland Fisheries does not have a documented business impact analysis. An impact analysis allows for the identification of essential business functions and the related IT systems and data. It is imperative for Game to conduct an impact analysis, as it is fundamental to an effective continuity of operations plan and is an essential part of an entity's overall security plan.

Although Game does have an IT Risk Assessment and a Continuity of Operations Plan, staff created these critical documents without the assistance of a documented business impact analysis. The IT Risk Assessment did identify 17 essential business functions, which the Executive Director approved, but this list does not contain all of the elements of a business impact analysis.

Commonwealth IT Information Security Standard (SEC501-01) Section 2.3 states that each agency shall have a Business Impact Analysis that identifies the agency's business functions, as well as identifies which of these are essential, and the assets on which each essential function depends. Additionally, the agency must determine a Recovery Time Objective and Recovery Point Objective for each function, as well as identify each IT system that support each function.

We note the progress that Game has made towards compliance with the IT Security Standard. However, without a documented Business Impact Analysis, it is impossible to determine if the IT Risk Assessment and the Continuity of Operations Plan already established are sufficient to meet Game's objectives. We suggest that Game dedicate the required resources to complete a Business Impact Analysis.

## **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; promotes safety for persons and property in connection with boating, hunting, and fishing; and provides educational outreach programs and materials to foster an awareness of and appreciation for Virginia's fish and wildlife resources, their habitats, and hunting, fishing, and boating opportunities. 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, as well as 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**

On the following page, Tables 1 and 2 present Game's original and adjusted budgets, by program, as well as their actual expenditures in those programs for fiscal years 2008 and 2009. The wildlife and freshwater fisheries management program makes up the majority (69 percent and 60 percent respectively) of Game's actual expenditures. Capital outlay expenditures doubled from \$5.7 million in 2008 to \$12.1 million in 2009.

The Capital Outlay increase largely reflects the spending of \$9.0 million on the Coursey Springs Hatchery renovation project, which began in late June 2008 and will take approximately 18 months to complete. Estimated total costs for the project are \$15.8 million, with the Capital Improvement Fund providing the majority of the funds (\$13.2 million), and additional funds provided by Federal grants (\$2.6 million). Transfers from the Game Protection Fund, Game's main source of revenue, fund the Capital Improvement Fund. Of the \$13.2 million budgeted costs within the Capital Improvement Fund, \$5.9 million represents the transfer of unexpended funds from two previous fish hatchery renovation projects.

**Table 1****Analysis of Budgeted Funding and Actual Expenditures – Fiscal Year 2008**

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures</u>
Wildlife and freshwater fisheries management	\$38,210,254	\$43,458,930	\$37,359,345
Administrative and support services	5,905,660	6,049,454	5,532,443
Boating safety and regulation	5,003,588	7,532,110	5,516,399
Capital outlay projects	-	7,485,643	5,786,288
Total	<u>\$49,119,502</u>	<u>\$64,526,137</u>	<u>\$54,194,475</u>

*Source: Commonwealth Accounting and Reporting System; 2008 Original Budget-Appropriation Act, Chapter 847*

**Table 2****Analysis of Budgeted Funding and Actual Expenditures – Fiscal Year 2009**

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures</u>
Wildlife and freshwater fisheries management	\$40,581,585	\$40,613,064	\$36,303,210
Administrative and support services	6,203,483	6,248,483	5,973,012
Boating safety and regulation	5,388,308	6,743,308	6,366,943
Capital outlay projects	<u>3,000,000</u>	<u>34,812,848</u>	<u>12,115,875</u>
Total	<u>\$55,173,376</u>	<u>\$88,417,703</u>	<u>\$60,759,040</u>

*Source: Commonwealth Accounting and Reporting System; 2009 Original Budget-Appropriation Act, Chapter 879*

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 year 2008 and \$7.1 million in fiscal year 2009.

Game also indirectly receives General Fund revenue collections from sales and use taxes on new watercraft sales; the Appropriations Act limited Game's share of these taxes to \$5.9 million in fiscal year 2008, and \$6.2 million in fiscal year 2009. 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 3 below provides a breakdown of Game's revenue and transfers from the General Fund:

**Table 3**

Details of Game's Actual Revenue and General Fund Transfers – Fiscal Years 2008 and 2009

<u>Source</u>	<u>2008</u>	<u>2009</u>
Hunting and fishing licenses	\$21,614,310	\$21,639,671
Net transfers to the Game Protection Fund from		
General Fund sources	17,012,011	13,569,104
Federal grants and contracts	16,671,109	14,712,552
Other, including insurance proceeds, timber sales, publication sales	7,522,924	6,588,346
Boat licenses and watercraft titling fees	<u>3,684,530</u>	<u>3,353,901</u>
Total net revenue	<u>\$66,504,884</u>	<u>\$59,863,574</u>

*Source: Commonwealth Accounting and Reporting System*

Table 4 details Game's actual expenses by major object. In fiscal years 2008 and 2009, personal services accounted for the majority of Game's expenses at 58 percent and 53 percent respectively. Contractual services, at 16 percent in both years, include expenses for communication services, repair and maintenance services, support services, and technical services. In 2009, plant and improvements expenses increased significantly to \$8.9 million from \$0.9 million in 2008. This increase directly relates to a capital project for the renovation of Coursey Springs Hatchery.

**Table 4**

Expenses by Major Object - Fiscal Years 2008 and 2009

<u>Major Object</u>	<u>2008 Expenses</u>	<u>2008 Percent</u>	<u>2009 Expenses</u>	<u>2009 Percent</u>
Personal services	\$31,723,271	58%	\$32,140,840	53%
Contractual services	9,174,067	16%	9,952,250	16%
Supplies and materials	3,709,310	7%	3,675,597	6%
Equipment	2,641,500	5%	3,065,037	5%
Continuous charges	1,461,679	3%	1,842,680	3%
Plant and improvements	962,231	2%	8,967,743	15%
Transfer payments	259,092	1%	244,754	1%
Property and improvements	<u>4,263,325</u>	<u>8%</u>	<u>870,139</u>	<u>1%</u>
Total expenses	54,194,475	100%	60,759,040	100%
Less: capital outlay included above	<u>5,786,288</u>		<u>12,115,875</u>	
Total operating expenses	<u>\$48,408,187</u>		<u>\$48,643,165</u>	

*Source: Commonwealth Accounting and Reporting System*

### **Projected Funding of Future Operations**

Comparing revenues in Table 3 to expenses in Table 4, we found that Game's revenues were sufficient to cover their operating expenses. However, Game's operations are 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 \$5.8 million and \$12.1 million for fiscal years 2008 and 2009 respectively combine for a total of \$17.9 million. This includes \$9.5 million for renovation of fish hatcheries. Additionally, Game spent about \$3.5 million for acquisitions of and repairs to wildlife management areas and facilities, \$2.6 million for dam safety compliance and boating access repairs, \$1.2 million for reconstruction of Upper and Lower Powhatan Lakes, and \$0.8 million on the acquisition of Feather and Fin Farm; the remaining \$.3 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; they 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 2008, gives projections through 2020. The model, based on a management study completed in February 2009, uses management's best estimates 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. In the May 2008 model projection, Game estimates that if current trends continue and Game 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 to 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**

September 17, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Department of Game and Inland Fisheries** (Game) for the period April 1, 2008 through June 30, 2009. 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 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 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.

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

We performed audit tests to determine whether the 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 the Game's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

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

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. We noted a repeat matter of noncompliance with the Virginia Information Technologies Agency's Security Standard that requires management's attention and corrective action. This matter is described in the section entitled "Audit Findings and Recommendations."

Game has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

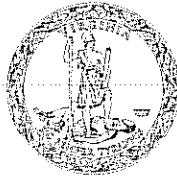
### Exit Conference and Report Distribution

We discussed this report with management on October 7, 2009. 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

SBH:alh



# COMMONWEALTH of VIRGINIA

L. Preston Bryant, Jr.  
*Secretary of Natural Resources*

*Department of Game and Inland Fisheries*

Robert W. Duncan  
*Executive Director*

November 6, 2009

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

Dear Mr. Kucharski:

Thank you to you and your staff for your recommendation given to us during the exit conference on October 7, 2009. The Department of Game and Inland Fisheries (Game) shares your goals with respect to ensuring an appropriate internal control environment and financial transparency within the Agency.

We concur with your recommendation that Game's Business Impact Analysis needs to be formally documented. Game is currently working on the documentation process and plans to have the analysis complete by December 31, 2009.

Again, thank you for your valued input from the report and exit conference. We appreciate the opportunity to comment on these very important matters.

Sincerely,

A handwritten signature in cursive script, reading "Bob Duncan".

Robert W. Duncan.  
Executive Director

Sincerely,

A handwritten signature in cursive script, reading "Matthew H. Koch".

Matthew H. Koch  
Chief Operating Office

Sincerely,

A handwritten signature in cursive script, reading "Raymond E. Davis".

Raymond E. Davis  
Director of Administrative Services

DEPARTMENT OF GAME AND INLAND FISHERIES

BOARD MEMBERS

As of July 2009

Charles S. Yates, Chairman

Ward Burton	Randy J. Kozuch
James B. Clarke, III	John W. Montgomery, Jr
Sherry S. Crumley	Mary Louisa Pollard
William T. Greer, Jr.	Richard E. Railey, Jr.
James W. Hazel	F. Scott Reed, Jr.

DIRECTOR

Robert W. Duncan