POTOMAC RIVER FISHERIES COMMISSION

COLONIAL BEACH, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2003

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Potomac River Fisheries Commission for the year ended June 30, 2003, found:

- the financial information is properly reported in the Commission's financial system;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

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.

The Commission is responsible for reseeding and replanting oyster bars, prescribing the type, size, and description of seafood which may be taken or caught, issuing licenses for the taking of finfish, crabs, oysters, clams and for boats, vessels, and equipment used for such taking, and imposing an inspection tax on oysters caught in the Potomac River.

During the fiscal year ending June 30, 2003, the Commission received revenue from the following sources:

Virginia appropriations	$155,000
Maryland appropriations	155,000
Federal grant	116,181
Sport fishing licenses	65,095
Fishing licenses	63,790
Crab licenses	59,475
Oyster licenses	4,930
Oyster bushel tax	1,660
Interest and miscellaneous	15,412
Total revenue	$636,543

Revenues increased by $91,706 when compared to fiscal year 2002. The increased revenues occurred primarily because the Commission drew down the majority of a fiscal year 2002 federal grant during fiscal year 2003. Vendor problems had delayed the research related to this grant and the federal government gave the Commission an extension to draw down the funds into fiscal year 2003.

The Commission had the following expenses during fiscal year 2003:

Capital improvements reserve	$217,000
Federal grant	92,459
Fixed assets	3,109
Contractual services	59,491
Insurance	4,116
Development and repletion	97,970
Materials and supplies	40,541
Personnel services	253,085
Total expenses	$767,771

The increase in expenses of $252,587 when compared to fiscal year 2002 resulted from:

- Development and repletion increased by 67 percent due to a Commission decision to resume conducting oyster plantings in fiscal year 2003. The Commission had limited oyster plantings in fiscal year 2002 due to poor performance from plantings made in fiscal year 2001. Water conditions in the river contributed to the failure in

the previous plantings, so the Commission decided to defer future plantings until conditions were favorable.

- An increase in contractual services of $73,000 related to the federal grant extension discussed under revenue above.

- The Commission transferred $217,000 to the capital reserve, $116,000 more than they transferred in fiscal year 2002. The Commission established the reserve to pay for the design and construction of a new office building in Colonial Beach, Virginia. As of June 30, 2003, the reserve account totaled more than $496,000. The Commission began construction of the building in fiscal year 2004 and plans to borrow an additional $150,000 to pay for the building's construction.

The Commission has placed excess cash into both the Maryland and Virginia Local Government Investment Pools for a number of years and designated a portion of these investments for the future construction of a new office building. As of June 30, 2003, the building fund totaled $496,293 after the purchase of land adjacent to the existing office building for approximately $175,000 in fiscal year 2000 and architect design fees paid in 2002. The Commission has budgeted to deposit an additional $100,000 into the building reserve during fiscal year 2004.

The Commission accepted bids and awarded a contract for the construction of the building in October 2003. The expected cost of the building is $698,000 with an additional $50,000 estimated for expenses related to the construction for items such as a PA system, chairs, and telephone wiring. The Commission plans to use their building reserve to pay for most of the construction expenses and has received a $300,000 line of credit from a bank. Currently they expect to use approximately $150,000 of the line of credit, which when combined with the building reserve, should cover the construction and furniture/fixture costs of about $750,000.

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

March 23, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice 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 **Potomac Rivers Fisheries Commission** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions in the Commission's accounting records, review the adequacy of the Commission'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 Commission'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:

Cash and investments
Fixed assets
Accrued leave
Grants
Revenues
Expenditures

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 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 and regulations.

The Commission'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.

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commission's accounting records. The Commission 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 Commission's accounting records.

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 and use 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 March 23, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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POTOMAC RIVER FISHERIES COMMISSION
Colonial Beach, Virginia

COMMISSIONERS

Virginia

William A. Pruitt

Gordon M. Birkett

Ida Hall

Kenneth W. Williams, Sr.

Maryland

Ronald Franks

Paul Harris Kellam III

John T. Parran

William L. Rice, Sr.

Officers

Kirby A. Carpenter, Executive Secretary

J. Clifford Hutt, Legal Officer

Michael C. Mayo, Legal Officer