

DEPARTMENT OF CONSERVATION AND RECREATION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Conservation and Recreation, including the Chippokes Plantation Farm Foundation and Virginia Land Conservation Foundation, for the year ended June 30, 2005, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- weaknesses in internal controls that require management's attention and corrective action; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Follow Small Purchase Charge Card Procedures

The Department of Conservation and Recreation (Conservation and Recreation) does not consistently comply with the procedures of the Commonwealth Accounting Policies and Procedures (CAPP) Manual in its use of the Small Purchase Charge Card (SPCC) program. Specifically, we found the following instances in which Conservation and Recreation did not comply with the purchasing log requirements:

- In four instances, Conservation and Recreation could not provide supporting documentation for purchases. Specifically, the department could not supply all receipts that supported four of the monthly payments selected for testwork.
- In two instances, the employee's supervisor did not sign and/or date an employee's purchasing log. The supervisor signs and dates the employee's monthly reconciliation log before submission for payment to indicate that the supervisor reviewed and approved all charges.
- In two instances, the payment approved by the supervisor did not agree to the employee's purchase log, nor was there documentation of the reconciling items. By not documenting the amounts for payment, Conservation and Recreation incurs the risk of paying for items twice.

By not following the procedures in the CAPP Manual before paying the credit card bill, Conservation and Recreation is not adequately mitigating the potential risk of fraudulent activity or duplicate payments in its decentralized environment.

Conservation and Recreation should follow the SPCC procedures in the CAPP Manual or document their internal process and the compensating controls they create. Furthermore, given the department's decentralized environment, management should closely monitor their internal controls to ensure that all staff and supervisors are aware of and following the department's policies and procedures.

OVERVIEW AND FINANCIAL HIGHLIGHTS

Department of Conservation and Recreation

The Department of Conservation and Recreation has set its mission "... to conserve, protect, and enhance the Commonwealth's unique natural, historic, recreational, scenic, and cultural resources." Conservation and Recreation works towards its mission through the administration of the state park system and other programs. The other program divisions include Natural Heritage, Soil and Water Conservation, Planning and Recreation Resources, Chesapeake Bay Local Assistance, Services, and Dam Safety and Floodplain Management.

The state park system includes 34 state parks with most offering outdoor recreational activities including camping, hunting, hiking, horseback riding, boating, fishing, and swimming, and cabin rentals. Some parks also offer visitor centers, museums, exhibits, conference facilities, and environmental education centers. The Division of Natural Heritage supports a comprehensive effort to inventory and preserve the animal, plant, and natural community resources of the Commonwealth and maintains 44 natural area preserves.

The Division of Soil and Water Conservation coordinates and directs programs and services to improve and ensure water quality and quantity. Most of the soil and water conservation efforts are devoted to controlling and reducing non-point source pollution through nutrient management and storm water, erosion, and sediment control programs. The Division of Planning and Recreation Resources supports the protection, acquisition, improvement, and expansion of outdoor recreation and open space resources and also assists organizations in their management and development of recreational resources, facilities, and services. The Division of Chesapeake Bay Local Assistance addresses the impact of land use upon the waters that feed the Chesapeake Bay. Finally, the Division of Dam Safety and Floodplain Management works to provide for safe design, construction, operation, and maintenance of dams to protect public safety, minimize flood damage risk, and prevent inappropriate flood plain use and development.

Water Quality Improvement Fund

The Commonwealth established a special permanent fund known as the "Virginia Water Quality Improvement Fund" to finance nutrient removal strategies for the Chesapeake Bay and its tributaries. Of the fund's total statewide expenses, \$10,555,326, during fiscal year 2005, Conservation and Recreation provided 43 percent to local governments, soil and water conservation districts, institutions of higher education, and individuals to lower the amount of non-point source pollution washed from the Virginia lands. The Department of Environmental Quality provided 55 percent to publicly-owned treatment works for the purpose of designing and installing biological nutrient removal facilities within the Chesapeake Bay watershed to control point source pollution. The Department of Health accounted for less than one percent of the fund's statewide expenses.

The Virginia Water Quality Improvement Fund receives funds from the general fund, as appropriated by the General Assembly, and statutory funding as provided in the Section 10.1-2128 of the Code of Virginia. The Code of Virginia requires that ten percent of the annual statewide general fund revenue collections, which exceed the official estimates in the General Appropriation Act, as well as ten percent of any unreserved statewide general fund balance at the close of each fiscal year not mandated for re-appropriation go into the fund. Fifteen percent of mandatory deposits that result from general fund surpluses are set aside in a reserve for appropriation in years when Virginia does not have a general fund budget surplus. Conservation and Recreation received appropriations in fiscal years 2005 and 2006 to transfer approximately \$9 million and \$30 million, respectively, from the general fund to Virginia Water Quality Improvement Fund to control non-point pollution.

Virginia Land Conservation Fund

The Virginia Land Conservation Fund is a special permanent fund under Conservation and Recreation's Leisure and Recreation Services program, to account for the resources of the Virginia Land Conservation Foundation. The Fund receives resources from the general fund, as appropriated by the General Assembly, and interest earnings. The General Assembly, for the first time since fiscal year 2001, appropriated general funds for transfer to the Fund of \$12.5 million and \$2.5 million during fiscal years 2005 and 2006, respectively.

The Foundation awards grants to state agencies, localities, public bodies, and tax-exempt nonprofit organizations to protect natural areas, open spaces and parks, farmlands and forest, and historic areas. Although Conservation and Recreation provides the staffing and administrative support, including scoring grants applications for the Foundation, the Foundation retains overall responsibility for managing the resources of the Fund and awarding grants.

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 Farm and Forestry Museum and Chippokes Plantation State Park located in Surry County. The Foundation receives funding from General Assembly appropriations, farmland rent payments, donations, admissions, and gift shop sales.

The Chippokes Plantation Farm Foundation expensed \$180,007 during fiscal year 2005, of which \$155,537 was funded by general fund appropriations. The remaining resources came from the Foundation's special revenue collections. During fiscal year 2005, the Foundation collected \$51,496 in special revenue funds, giving them a cash balance of \$416,789 at the end of the fiscal year. Conservation and Recreation processes the Foundation's accounting transactions, which consist mostly of payroll. However, unlike the Virginia Land Conservation Foundation, this foundation reports its activity under its own agency code and thus, is not included in the department's financial information below.

Financial Information

Operating

During fiscal year 2005, Conservation and Recreation's total final operating appropriations increased by 32 percent because of funding increases for the Virginia Water Quality Improvement Fund and the Virginia Land Conservation Fund.

Analysis of Operating Budgeted and Actual Funding by Program Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Funding</u>
General fund	\$43,268,999	\$35,738,941	\$35,738,941
Special revenue fund*	13,139,990	44,022,847	38,321,791
Federal trust	<u>9,252,783</u>	<u>10,791,171</u>	<u>12,748,559</u>
Total	<u>\$65,661,772</u>	<u>\$90,552,959</u>	<u>\$86,809,291</u>

Source: Commonwealth Accounting and Reporting System (CARS)

* includes special revenue and dedicated special revenue funds

Analysis of Operating Budgeted and Actual Expenses by Program and Funding Source
Fiscal Year Ended June 30, 2005

	<u>Program Expenses</u>			<u>Funding Source</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>General Fund</u>	<u>Special Revenue Funds*</u>	<u>Federal Grants</u>
Administrative and Support Services	\$ 4,258,973	\$ 5,461,510	\$ 4,799,219	\$ 4,670,557	\$ 128,662	\$ -
Land Management	31,913,799	38,566,104	25,318,482	11,320,426	7,953,169	6,044,887
Leisure and Recreation Services	<u>29,489,000</u>	<u>46,525,345</u>	<u>30,142,163</u>	<u>15,361,926</u>	<u>12,056,063</u>	<u>2,724,174</u>
Total	<u>\$65,661,772</u>	<u>\$90,552,959</u>	<u>\$60,259,864</u>	<u>\$31,352,909</u>	<u>\$20,137,894</u>	<u>\$8,769,061</u>

Source: CARS

* includes special revenue and, dedicated special revenue funds

At the end of fiscal year 2005, the Virginia Water Quality Improvement Fund and the Virginia Land Conservation Fund, both dedicated special revenue funds, had cash balances of approximately \$9 million and \$14 million, respectively. These cash balances represent unspent appropriations in the Management and Leisure and Recreation Services programs as illustrated in the above table. The primary reason for the unspent appropriations is that management did not have time to expense the funds prior to the close of the fiscal year because the two funds supporting these programs (Virginia Water Quality Improvement Fund and the Virginia Land Conservation Fund) did not receive a significant portion of their funding until late in the fiscal year.

Capital Project

In November 2002, voters approved the “Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002.” This act authorized the Commonwealth to sell bonds in an amount not to exceed \$119,040,000 and earmarked the proceeds of the bonds for the following major categories.

Acquisition of land – natural area preserves and parks	\$ 36,500,000
Facility repairs	19,000,000
New construction	<u>63,540,000</u>
Bond Act 2002	<u>\$119,040,000</u>

The following table shows the activity related to these bond projects as of June 30, 2005:

Total bond appropriations	\$113,461,000	
Total bond expenditures	<u>19,838,973</u>	
Total bond appropriations available		\$ 93,622,027
Original bond act	119,040,000	
Total bond appropriations	<u>113,461,000</u>	
Total available to appropriate		<u>5,579,000</u>
Total available from original bond act		<u>\$99,201,027</u>

As referenced above, Conservation and Recreation has approximately \$99 million remaining to complete the projects listed in the Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002. As of March 31, 2006, there are 25 projects yet to begin, 30 completed, and 71 in progress. Conservation and Recreation uses funds from other sources to supplement revenue from the Bond Act of 2002 for the completion of these projects. The following table lists funding sources from which management expects to receive monies to complete the capital projects in the Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002.

<u>Funding Source</u>	<u>Expected Funding</u>	<u>Total Expenditures as June 30, 2005</u>
Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002	\$119,040,000	\$19,838,973
Federal fund	12,671,274	1,643,830
General fund	9,230,000	-
Special revenue	958,351	958,351
Virginia Public Building Authority	<u>921,000</u>	<u>125,957</u>
Total expected funding	<u>\$142,820,625</u>	<u>\$22,567,111</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 17, 2006

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

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Conservation and Recreation**, including the Chippokes Plantation Farm Foundation and Virginia Land Conservation Foundation, for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

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 the Department's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

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.

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

Transfer payments	Appropriations
Payroll expenditures	Truth in fees
Small purchase charge card	Network security
Capital outlay	

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. Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department 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 certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Internal Control Finding and Recommendation."

EXIT CONFERENCE

We discussed this report with management on June 28, 2006. Management's response is 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, and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS/kva

L. Preston Bryant, Jr.
Secretary of Natural Resources



Joseph H. Maroon
Director

COMMONWEALTH of VIRGINIA
DEPARTMENT OF CONSERVATION AND RECREATION

203 Governor Street
Richmond, Virginia 23219-2010
(804) 786-6124

June 8, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

RE: Response to Audit Findings

Dear Mr. Kucharski:

We are providing this letter in response to the management finding contained in your audit report of the financial records of the Virginia Department of Conservation and Recreation for the fiscal year ended June 30, 2005.

Follow Small Purchase Charge Card Procedures

Concur. DCR will continue to provide training to employees on the proper use of the Small Purchase Charge Card (SPCC). In addition, the Internal Audit Office will be implementing a compliance program for State Parks in the coming months. The program will include a step to test SPCC documentation at the State Parks for compliance with Section 20355 of the CAPP Manual.

If you have any questions, please contact Eric Surratt, Internal Auditor, at (804) 786-7622 or via email at eric.Surratt@dcr.virginia.gov.

Sincerely,

A handwritten signature in black ink that reads "Joseph H. Maroon". The signature is written in a cursive style with a large, looping initial "J".

Joseph H. Maroon
Director

JHM/ews

Copy: Bill Price
Tim Bishton
Eric Surratt

AGENCY OFFICIALS
(As of June 30, 2005)

DEPARTMENT OF CONSERVATION AND RECREATION

Joseph H. Maroon
Director

Eric Surratt
Internal Auditor

Tim Bishton
Director of Finance

CHIPPOKES PLANTATION FARM FOUNDATION

Katherine Wright
Executive Secretary

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