

**DEPARTMENT OF CONSERVATION
AND RECREATION
VIRGINIA LAND CONSERVATION FOUNDATION
CHIPPOKES PLANTATION FARM FOUNDATION**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2011 THROUGH DECEMBER 31, 2012**

AUDIT SUMMARY

Our audit of the Department of Conservation and Recreation, including the Chippokes Plantation Farm Foundation and the Virginia Land Conservation Foundation, for the audit period July 1, 2011, through December 31, 2012, 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;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- proper and timely spending of dedicated special revenue funds.

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AGENCY HIGHLIGHTS

The Department of Conservation and Recreation (Conservation and Recreation) works to conserve, protect, and enhance state lands and improve the quality of the Chesapeake Bay and other watersheds, promotes the stewardship and enjoyment of natural recreational resources, and ensures the safety of Virginia's dams. Conservation and Recreation administers various conservation programs to achieve their mission.

Our audit of Conservation and Recreation for the period July 1, 2011, through December 31, 2012, focused primarily on the agency's dedicated special revenue funds. We performed audit work to determine why the funds had high cash balances at times and whether Conservation and Recreation was distributing the cash timely. The following report details specific information about how these funds are obligated and expensed for specific programs, as well as an overview of the agency's operating revenues and expenses.

Major Types of Dedicated Special Revenue Funds

Water Quality Improvement Fund

The Virginia Water Quality Improvement Fund (WQIF) is a permanent, non-reverting fund, created to provide water quality improvement grants for point and non-point source pollution prevention. The Code of Virginia requires that 10 percent of annual statewide General Fund revenue collections that exceed the official estimates in the Appropriation Act, and 10 percent of any unreserved General Fund balance at the close of each fiscal year not mandated for re-appropriation, go into the WQIF. The General Assembly's appropriation of additional monies for the WQIF varies.

Conservation and Recreation provides financial and technical assistance to local governments, soil and water conservation districts, state agencies, institutions of higher education, and individuals. The Code of Virginia requires that Conservation and Recreation allocate no more than 60 percent of its WQIF to programs in the Chesapeake Bay watershed.

Conservation and Recreation closely monitors and manages the number and value of grants they award each year to ensure monies are available in future years. Most of WQIF's expenses are grant awards to Virginia's 47 soil and water conservation districts for implementation of agricultural best management practices that reduce non-point pollution.

Virginia Natural Resources Commitment Fund

The Virginia Natural Resources Commitment Fund (VNRCF) is a sub-fund of the WQIF. For a 10-year period beginning July 1, 2008, Conservation and Recreation's Agricultural Best Management Practices Cost-Share Program uses VNRCF to implement agricultural best management practices.

Fifty-five percent of the VNRCF serves as matching grants for agricultural best management practices exclusively or partly within the Chesapeake Bay watershed, and 37 percent are for matching grants for farmland exclusively outside of the Chesapeake Bay watershed. Conservation

and Recreation distributes the remaining eight percent through the Virginia Agricultural Best Management Practices Cost-Share Program to the soil and water conservation districts to provide technical assistance for the implementation of agricultural best management practices.

Virginia Land Conservation Fund

The Virginia Land Conservation Fund (VLCF) is a special, permanent fund established to account for the resources of the Virginia Land Conservation Foundation (Foundation). The Foundation receives General Fund appropriations and has interest earnings.

The Foundation awards grants to state agencies, localities, public bodies, and tax-exempt non-profit organizations to protect natural areas, open spaces, parks, farmlands, forest, and historic areas. The Foundation also provides support to the Virginia Outdoors Foundation, a state entity that conserves land by holding conservation easements. Although Conservation and Recreation provides the staffing and administrative support, including scoring grant applications for the Foundation, the Foundation retains overall responsibility for managing the resources of the Virginia Land Conservation Fund and awarding grants. Annual Foundation expenses for fiscal year 2012 were about \$748,000 and as of the second quarter of fiscal year 2013, total expenses were about \$3.3 million. The large increase in expenses between the fiscal years is mainly due to timing differences, which we explain in further detail later in this report.

Overview of Funds Used for Agricultural Best Management Practices

Annually, Conservation and Recreation determines a spending plan and allocates monies to Virginia's soil and water conservation districts (districts). The monies are officially obligated to the districts once the Soil and Water Conservation Board approves the spending plan, and the Conservation and Recreation's District Coordinators work with the districts to determine which agricultural best management practices the districts should implement.

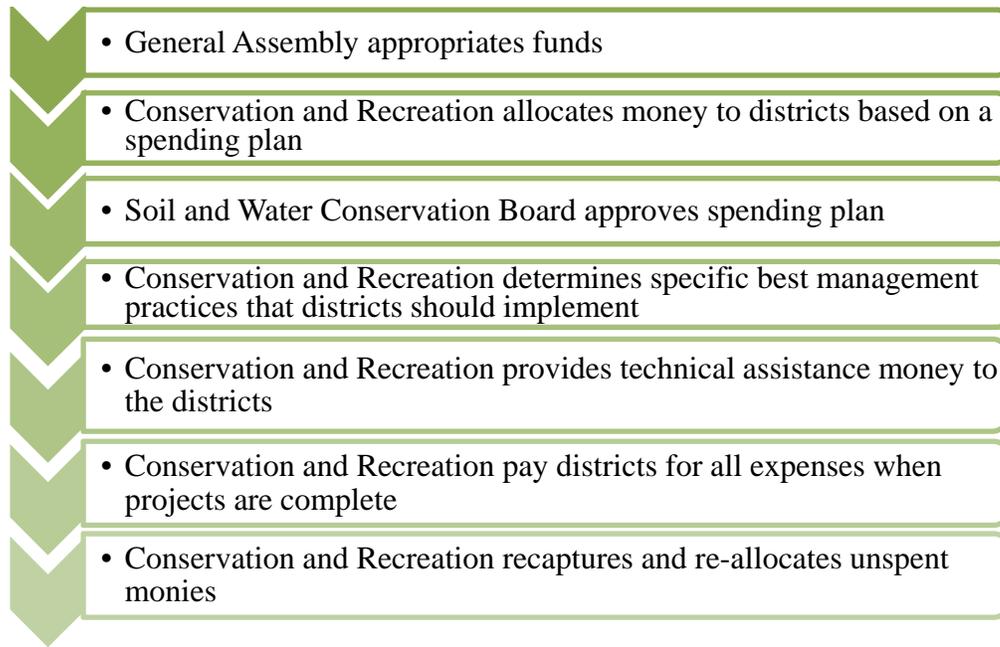
Conservation and Recreation provides districts with some initial money for technical assistance at the start of the practice implementation. District Coordinators monitor the completion of the agricultural best management practices, and Conservation and Recreation transfers money to the districts once the project is complete. Often the districts may not expend all of the allocated monies in a given year due to some practices taking longer than a year to implement; thus the obligated monies remain unexpended at the end of a fiscal year.

In addition, unexpected circumstances may cause farmers to cancel best management practices after the monies have been allocated for that purpose. Conservation and Recreation reviews the district's capacity and actual practices, and evaluates the need to recapture any monies that a district has not committed for a specific practice. After Conservation and Recreation recaptures any outstanding monies, the money becomes available to be re-obligated to other districts for implementation of agricultural best management practices.

Chart 1 below illustrates the allocation process discussed above where funds are obligated to the districts for the agricultural best management practices.

Chart 1

Process of Allocating Obligated Funds for Agricultural Best Management Practices



Dedicated Special Revenue Spending

As shown in Table 1 below, at the start of fiscal year 2012, Conservation and Recreation had a large available cash balance primarily consisting of monies obligated for WQIF and the VNRCF programs. These obligated monies remained unexpended due to timing issues of when appropriated monies were allocated to Virginia’s soil and water conservation districts, and when the districts actually expensed all of the monies for agricultural best management practices.

Overall, Conservation and Recreation’s dedicated special revenue funds had \$51.3 million obligated for the WQIF and the VNRCF at the end of fiscal year 2011. Contributing to this large cash balance was a \$32.8 million General Fund transfer to the WQIF during the final weeks of fiscal year 2011. Our audit found that Conservation and Recreation obligated these monies to specific agricultural programs timely; but, as a result of receiving the transfer so late in fiscal year 2011, the districts could not finish spending the monies until later in fiscal year 2012.

While the majority of the 2011 obligated monies were spent on the various agricultural programs throughout the fiscal year 2012, new monies were appropriated to the programs for fiscal year 2012 resulting in Conservation and Recreation’s dedicated special revenue funds having a \$33.5 million cash balance remaining at the close of fiscal 2012.

Table 1

Schedule of Dedicated Special Revenue Funds Obligations and Net Activity

<u>Fiscal Year</u>	<u>Beginning Obligated Cash Balance</u>	<u>Net Revenue and Expense Activity</u>	<u>Ending Obligated Cash Balance</u>
2012	\$51,331,292	\$17,837,286	\$33,494,006
2013 (first six months)	33,494,006	7,229,078	26,264,928

Source: Commonwealth Accounting and Reporting System

Overall Operating Revenues and Expenses

The tables below provide information about Conservation and Recreation’s budgeted and actual revenues, as well as operating budget and actual expenses by all major funds for fiscal year 2012. Information in Table 3 specifically highlights the WQIF, VNRCF, and Virginia Land Conservation Fund (VLCF) dedicated special revenue funds.

Table 2

Fiscal Year 2012 Analysis of Budgeted and Actual Operating Revenues by Fund
(in thousands)

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>
General	\$ 43,486	\$ 41,933
Special Revenue	18,807	25,324
Dedicated Special	10,112	10,171
Federal	<u>13,376</u>	<u>10,000</u>
Total	<u>\$ 85,781</u>	<u>\$ 87,428</u>

Source: Adjusted Budget and Actual Revenue, Commonwealth Accounting and Reporting System, 1664D1, as of June 30, 2012

Table 3

Fiscal Year 2012 Analysis of Operating Budget and Actual Expenses by Fund
(in thousands)

<u>Fund</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Adjusted Budget to Actual Expense Variance (Underbudget)</u>	<u>Percent of Underbudget attributable to Fund</u>
Dedicated Special:					
WQIF	\$ 27,449	\$ 11,951	\$ 2,651	\$ (9,300)	29 %
VNRCF	9,286	24,286	23,633	(653)	2 %
VLCF	7,700	6,897	748	(6,149)	19 %
Other	<u>2,687</u>	<u>3,740</u>	<u>1,786</u>	<u>(1,954)</u>	<u>6 %</u>
Subtotal	<u>47,122</u>	<u>46,874</u>	<u>28,818</u>	<u>(18,056)</u>	<u>56 %</u>
General	43,486	41,833	40,525	(1,308)	4 %
Special Revenue	23,565	28,595	20,963	(7,632)	23 %
Federal	<u>14,162</u>	<u>14,178</u>	<u>8,566</u>	<u>(5,612)</u>	<u>17 %</u>
Total	<u>\$ 128,335</u>	<u>\$ 131,480</u>	<u>\$ 98,872</u>	<u>\$ (32,608)</u>	<u>100 %</u>

Source: Original Budget – Appropriation Act Chapter 874, Adjusted Budget and Actual Expenses - Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012

Revenue versus Expense Analysis

Conservation and Recreation has a variety of funding sources including General Fund appropriations, dedicated special revenues, other special revenues, and federal grants and contracts. As noted in Tables 2 and 3 above, Conservation and Recreation's actual expenses of \$98.8 million were about \$11.4 million more than the agency's total revenue of \$87.4 million for fiscal 2012. This is mainly due to the spending of available cash balance at the close of fiscal 2011 used to support the programs of the dedicated special revenues in fiscal 2012, as previously discussed in this report.

Budget to Actual Expense Analysis

Conservation and Recreation's expenses are \$32.6 million less than its adjusted budget for fiscal year 2012. The dedicated special revenue funds account for \$18 million or 56 percent of this difference, which is largely attributed to the budgeted and actual expenses for the WQIF and the VLCF, as noted in Table 3 above.

The budget to actual expense variance in the WQIF of \$9.3 million is mainly due to a \$27.9 million dollar transfer at the very end of fiscal 2011, which was originally appropriated to the WQIF to be transferred to the VNRCF. The actual funds were deposited in the VNRCF and during fiscal 2012, the Department of Planning and Budget decided to administratively move the appropriations to the VNRCF as needed throughout the year; therefore, the budget in the WQIF was actually higher than the available funds.

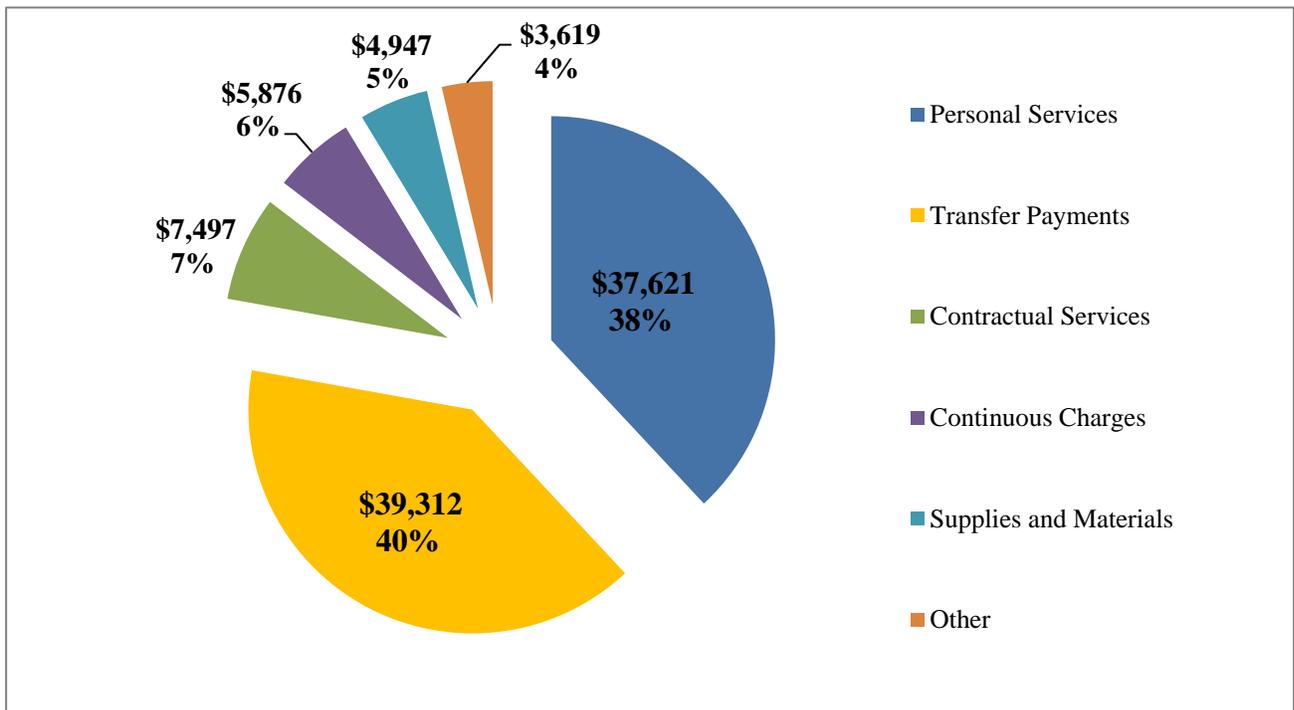
The budget to actual expense variance in the VLCF of \$6.1 million is due to a lower number of grants being issued during fiscal 2012 and timing differences of when awarded grants are completed, as mentioned in the beginning of this report. The VLCF’s requirement for the completion of a grant project is within two years from the date of the grant award. Thus, timing differences often occur since funds are not expended until the awarded projects are completed, which could span across multiple fiscal years.

Operating Expense Analysis

Chart 2 below depicts the dollar and percentage breakdown of Conservation and Recreation’s various types of operating expenses for the total \$98.8 million in expenses for fiscal 2012, as described in Table 3 above.

Chart 2

Breakdown of Fiscal Year 2012 Operating Expenses by Major Expense Type
(in thousands)



Source: Commonwealth Accounting and Reporting System

As seen in the Chart 2, transfer payments account for the most significant amount of fiscal 2012 expenses, \$39.3 million or 40 percent of the agency’s total operating expenses. Conservation and Recreation’s dedicated special revenue funds represent a substantial portion, \$25.7 million or 65 percent of the total transfer payments, and is directly related to payments made from the WQIF and VNRCF. The transfer payments from these dedicated special revenue funds are made to localities and the local soil and water conservation districts for the implementation of the agricultural best management practices, as discussed earlier in this report.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 9, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Conservation and Recreation, Chippokes Plantation Farm Foundation, and the Virginia Land Conservation Foundation** (Conservation and Recreation) for the period July 1, 2011, through December 31, 2012. 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 Commonwealth Accounting and Reporting System, review the adequacy of Conservation and Recreation's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review the timeliness and accuracy of spending dedicated special revenue funds.

Audit Scope and Methodology

Conservation and Recreation'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.

- Revenues and Appropriations
- Expenses
- Payroll
- Grants/Transfer Payments
- Cash Management and Budgeting
- Small Purchase Charge Cards

We performed audit tests to determine whether Conservation and Recreation’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 Conservation and Recreation’s operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Conservation and Recreation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Conservation and Recreation 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. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on July 9, 2013.

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

KKH/alh

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(As of December 31, 2012)

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Director of Finance

Eric Surratt
Internal Auditor

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