SECRETARY OF NATURAL RESOURCES AGENCIES

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2003 THROUGH JUNE 30, 2004

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Secretary of Natural Resources Agencies for the period July 1, 2003 through June 30, 2004, found:

- revenues and expenses are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with significant laws and regulations; and
- management has established and maintained internal controls over the revenues and expenditures tested, except as described in the Department of Game and Inland Fisheries and Virginia Outdoors Foundation sections of this report, in the subsections entitled "Internal Control Findings and Recommendations."

This report incorporates all of the following agencies:

Chesapeake Bay Local Assistance Department	Department of Historic Resources
Chippokes Plantation Farm Foundation	Marine Resources Commission
Department of Conservation and Recreation	Virginia Land Conservation Foundation
Department of Environmental Quality	Virginia Museum of Natural History
Department of Game and Inland Fisheries	Virginia Outdoors Foundation

On May 24, 2005, the State Internal Auditor presented the findings of his investigation to the Board of the Department of Game and Inland Fisheries. Accompanying this report was a corrective action plan developed by the Secretary of Natural Resources and with some exceptions related to the Secretary's recommendation to the Governor adopted and endorsed by the Board.

While the State Internal Auditor's report discusses some issues of Board governance recommendations in this report included a more extensive discussion of this issue. We did not include in this report any findings or recommendations which would duplicate the State Internal Auditor's report, except for the general Board governance issues. The State Internal Auditor's report includes extensive recommendations concerning internal controls and other matters and we encourage the Board and the Acting Executive Director to implement all of these recommendations.

Included in the Secretary of Natural Resources response to the report were recommendations to the Governor on the structure of Game and the Board. The Board did not adopt these recommendations, but agreed to consider and discuss them. Included in the report is a discussion of Games' organization and the relation of the Board, Secretary of Natural Resources and the Executive Director.

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AGENCY HIGHLIGHTS AND FINANCIAL OVERVIEW

INTRODUCTION

The Secretary of Natural Resources oversees the Commonwealth's natural and historic resources and the following agencies and related foundations report to the Secretary:

Chesapeake Bay Local Assistance Department	Department of Historic Resources
Chippokes Plantation Farm Foundation	Marine Resources Commission
Department of Conservation and Recreation	Virginia Land Conservation Foundation
Department of Environmental Quality	Virginia Museum of Natural History
Department of Game and Inland Fisheries	Virginia Outdoors Foundation

This report will highlight the operations and financial information of each of these organizations for fiscal year 2004. We have also included the Virginia Museum of Natural History in our report entitled "Virginia's Museums for Fiscal Year 2004."

The programs within these organizations focus on four key areas: Water Resources, Land Conservation, Outdoor Recreation, and Fisheries and Wildlife. They provide for the management of the Commonwealth's natural resources through regulation, inventorying, monitoring, and education.

The following chart reflects the funding source by fund type for each of these agencies. The majority of funding, after debt service funds, comes from dedicated special revenues. The second chart reflects the final budget allocations by program for each agency. The Virginia Outdoors Foundation is excluded from these schedules because they do not receive a direct appropriation. A more detailed analysis of each agency's funding and programs, including the Virginia Outdoors Foundation, is included individually later in this report.

Many of the Secretary of Natural Resource agencies have been subject to recent reviews through several other audits performed by our office. A listing of those reports and the Natural Resource agencies included in them follows. These reports may be accessed through our website, www.apa.virginia.gov.

Review of Deferred Maintenance in the Commonwealth
December 2004

Department of Conservation and Recreation
Department of Environmental Quality
Department of Game and Inland Fisheries
Marine Resources Commission
Virginia Museum of Natural History

Special Review – Small Purchase Charge Card Follow-up
April 2004

Department of Conservation and Recreation
Department of Game and Inland Fisheries

Statewide Review of Agency-Owned Vehicles
June 2004

Department of Conservation and Recreation
Department of Environmental Quality
Department of Game and Inland Fisheries
Department of Historic Resources
Marine Resources Commission
Virginia Museum of Natural History

Special Review of the Commonwealth of Virginia's Fixed Asset Accounting and Reporting System
January 2003

Department of Conservation and Recreation
Department of Game and Inland Fisheries

CHESAPEAKE BAY LOCAL ASSISTANCE DEPARTMENT

The Chesapeake Bay Preservation Act requires localities within the Tidewater area of Virginia to adopt programs to preserve water quality and protect the Chesapeake Bay and its tributaries from pollution attributable to land use and development. The Tidewater area includes 17 cities, 38 towns, and 29 counties, running from Arlington to Chesterfield County to Virginia Beach and the Eastern Shore. The Chesapeake Bay Local Assistance Department (CBLAD) provides these local governments with technical and planning assistance, facilitates review of local programs by its Board, and publishes technical guidance related to the implementation of plan performance criteria.

On July 1, 2004, CBLAD became a division under the Department of Conservation and Recreation as a result of the Governor's streamlining of state government initiative.

Financial Highlights

CBLAD receives general fund support as well as revenues in the form of federal pass-through grants from other agencies and nominal sales of local assistance manuals. This chart illustrates CBLAD's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$1,389,644	$1,448,859	$1,448,859
Federal	-	254,309	218,759
Total	$1,389,644	$1,703,168	$1,667,618

CBLAD spent approximately $1.6 million of its available funding under its one program, Land Management (503). The following chart highlights the breakdown of these expenses.

Analysis of Actual Expenditures

Expense Type	Actual Expense	Percent
Employee payroll and benefits	$1,016,839	62%
Management and other contractual services	261,602	16%
Aid to localities	155,266	10%
Miscellaneous operating expenses	200,591	12%
Total	$1,634,298	100%

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. As reflected in the following chart, the Foundation receives funding from General Assembly appropriations, farmland rent payments, donations, admissions, and gift shop sales.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$151,057	$154,883	$154,883
Dedicated special revenue	67,103	67,103	44,680
Total	$218,160	$221,986	$199,563

Actual expenses under the Foundation's one program, Agricultural and Seafood Product Promotion and Development Services, totaled $181,780. Payroll and benefits of employees represent 71 percent of these expenses.

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. Their programs include Natural Heritage, Soil and Water Conservation, Planning and Recreational 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, swimming, and cabin rentals. Some parks also offer visitor centers, museums, exhibits, conference facilities, and environmental education centers. The Natural Heritage Program 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 Soil and Water Program coordinates and directs programs and services to prevent 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. Planning and Recreational Services supports the protection, acquisition, improvement and expansion of outdoor recreation and open space resources; and assists organizations in their management and development of recreational resources, facilities, and services. Finally, the Dam Safety and Floodplain Management Program 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.

As mentioned earlier, the Chesapeake Bay Local Assistance Department became a division of Conservation and Recreation, effective July 1, 2004.

Financial Highlights

General Fund appropriations account for approximately 59 percent of the $54.3 million in actual funding that Conservation and Recreation received for fiscal year 2004. Special revenues constitutes 25 percent and is the collection of admission and parking fees, merchandise and food sales, and other state park activities as well as permit and licensing fees. The remaining 16 percent represents primarily federal funds. The following chart illustrates Conservation and Recreations' original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$27,123,053	$ 31,931,613	$31,931,613
Special revenue	13,255,698	24,653,943	13,351,034
Debt service	-	140,455,010	-
Dedicated special revenue	1,267,740	1,820,637	139,044
Federal	8,395,349	26,625,771	8,718,933
Total	$50,041,840	$225,486,974	$54,140,624

The change between the original and adjusted budget for special revenues reflects state park revenue collections exceeding expectations, a locality donation for a specific capital project, as well as other transfers to support ongoing maintenance reserve projects, enhance other capital projects and address specific damage resulting from Hurricane Isabel. The federal grants budget also fluctuated drastically as a result of several new grant awards to support ongoing capital projects, as well as Hurricane Isabel clean-up reimbursements from the Federal Emergency Management Agency.

The debt service budget fluctuation relates to capital project funding and is especially high in fiscal year 2004 due to the addition of the "Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002" general obligation bonds, totaling $119 million, and other Virginia Public Building Authority bonds, totaling $21 million. The projects supported by these bonds received final approval by the Department of Planning and Budget to proceed during fiscal year 2004, and are now part of Conservation and Recreation's base budget. The funding balances will carry forward until Conservation and Recreation completes the projects.

Capital Outlay and Other Expenses

As demonstrated in the following chart, Conservation and Recreation has approximately $158.3 million in outstanding capital project funding. The majority of this amount comes from the Commonwealth of Virginia Parks and Natural Areas Bond Act of 2002. Of the authorized amount of $119 million, $36.5 million will go to the acquisition of land for Natural Area Preserves and Parks and to acquire in-holdings and adjacent properties. The remaining $82.5 million will support facility repairs and new construction. Approximately half of the projects supported by this funding have started and the remainder should start in fiscal year 2006. As noted in the following chart, Conservation and Recreation spent $10.5 million on capital projects in fiscal year 2004.

Overall, the chart reflects Conservation and Recreation's actual expenses by program as compared to the program's original and adjusted budget. Conservation and Recreation spent approximately $63.4 million on programs during fiscal year 2004, of which about $52.9 million represents operating expenses. Of all operating expenses, about 45 percent represent payroll and benefits of employees, 19 percent support contractual services for items such as clean up after Hurricane Isabel and skilled services, and 18 percent represents grant award payments. The remaining 18 percent includes other miscellaneous operating expenses.

Analysis of Budget to Actual Expenses by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Land management	$20,974,631	$ 26,336,520	$17,739,065
Leisure and recreation services	23,441,558	35,645,467	30,228,401
Executive management	188,160	-	-
Capital outlay	1,630,000	158,250,041	10,534,198
Administrative and support services	3,811,131	5,254,946	4,919,268
Total	$50,045,480	$225,486,974	$63,420,932

DEPARTMENT OF ENVIRONMENTAL QUALITY

The Department of Environmental Quality (Environmental Quality) protects the Commonwealth's natural resources by administering state and federal environmental programs, issuing permits, monitoring water and air quality, and inspecting waste facilities. Environmental Quality conducts extensive monitoring to ensure compliance with state and federal standards for water quality, air quality, and waste management. Environmental Quality also enforces regulations promulgated by the State Water Control Board, the Board of Waste Management, and the Air Pollution Control Board.

Environmental Quality operates through its central office, seven regional offices, and three satellite and specialized offices.

Financial Highlights

The following chart illustrates the Department's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$ 32,737,083	$ 35,456,764	$ 35,456,764
Special revenue	5,655,476	5,714,757	5,884,095
Enterprise	11,107,238	11,292,238	9,690,932
Trust and agency	31,596,525	39,096,525	40,442,921
Dedicated special revenue	12,531,046	47,457,666	27,772,488
Federal	44,902,177	20,209,217	17,573,896
Total	$138,529,545	$159,227,167	$136,821,096

The significant variance between the original budget and adjusted budget for the federal trust fund and the dedicated special revenue fund is the result of a budget transfer from the Federal trust fund to the dedicated special revenue fund of about $25 million. This transfer represents moneys available for construction assistance loans under the Virginia Clean Water Revolving Loan Fund. These funds provide low interest loans to local governments for construction assistance and land acquisition related to water quality issues.

Environmental Quality spent approximately $136 million on programs during fiscal year 2004. About 36 percent of these expenses represent payroll and benefits of employees; 49 percent represents transfer payments to local governments for construction assistance and land acquisition loans using the Virginia Clean Water Revolving Loan Fund and federal grants for individual claims and settlements for clean-up costs and injuries associated with the underground petroleum storage tank fund program; and ten percent represents payments for contractual services which includes expenses for hiring skilled services. The chart below shows Environmental Quality's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Environmental resources management	$ 31,071,089	$ 33,035,519	$ 31,719,444
Environmental research and planning	6,229,141	7,373,547	6,591,692
Environmental monitoring and evaluation	7,656,316	8,178,729	7,707,235
Environmental technical and financial assistance	39,068,851	45,777,866	29,244,979
Environmental policy and program development	895,866	559,461	455,555
Environmental information, education, and assistance	3,649,583	2,313,410	1,441,576
Environmental response and remediation	34,686,481	41,100,267	40,359,093
Administrative and support services	15,272,218	20,888,368	18,651,634
Total	$138,529,545	$159,227,167	$136,171,208

DEPARTMENT OF GAME AND INLAND FISHERIES

The Department of Game and Inland Fisheries (Game) manages Virginia's wildlife and inland fish to maintain optimum populations of all species to serve the needs of the Commonwealth; provides opportunity for all to enjoy wildlife, inland fish, boating and related outdoor recreations; and promotes safety for persons and property in connection with boating, hunting, and fishing. Major sources of revenue include hunting, fishing, and motorboat licensing; boat sales and use taxes; wildlife related sales taxes; and federal grants. Game's maximum employment level is 466 positions, a decrease from 472 in prior years as six Game employees transferred to the Virginia Information Technologies Agency.

Game enforces laws for the protection, propagation, and preservation of wildlife and fish, assists in enforcing all forestry 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 six divisions, and it operates five regional and six district offices, and nine fish hatcheries throughout the Commonwealth. The six divisions include Law Enforcement, Wildlife, Fisheries, Wildlife Diversity, Communication, and Administrative Services.

Financial Highlights

Game received $33.2 million in actual revenue for the fiscal year 2004. About 75 percent of this revenue represents money paid by citizens for taxes, fees and sales of items such as hunting and fishing licenses and goes into the dedicated special revenue funds. The remaining 25 percent represents primarily

federal grant funds. The following chart illustrates Game's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
Special revenue	$ -	$ -	$ 280,279
Trust and agency	-	32,000	(94,268)
Dedicated special revenue	32,572,564	54,621,062	24,748,609
Federal	8,830,000	13,651,922	8,280,288
Total	$41,402,564	$68,304,984	$33,214,908

The special revenue fund includes the sale of saltwater fishing licenses, a license sold by the Marine Resources Commission. For the convenience of citizens, they may purchase this license simultaneously when making a freshwater fishing license purchase through Game's system. Game records the revenue associated with these sales in this fund on the Marine Resources Commission's behalf and subsequently records a revenue refund to account for the transfer to the Commission. The total amount collected during the year was $1.9 million and the amount shown above reflects the balance not yet transferred at year end.

The significant variance between the original budget, adjusted budget, and actual funding is primarily a result of capital project carry-forwards of unspent balances from prior year appropriations totaling over $24 million dollars. The significant outstanding capital projects primarily involve fish hatchery renovation projects and the appropriation will continue to carry forward until the projects are completed.

Game spent approximately $41.5 million on programs during fiscal 2004. About 60 percent of these expenses represent payroll and benefits of employees; 16 percent represents contractual services for items such as vehicle maintenance, postage, printing, and training programs; and 14 percent for the purchase or improvement of property and equipment. The remaining ten percent represents operating expenses such as gasoline, uniforms, and law enforcement supplies. The chart below shows Game's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Wildlife and freshwater fisheries management	$29,957,490	$32,482,591	$29,401,805
Boating safety and regulation	5,427,527	5,527,527	4,210,595
Capital outlay	-	24,277,319	2,612,965
Administrative and support services	6,017,547	6,017,547	5,297,364
Total	$41,402,564	$68,304,984	$41,522,729

Special Matters

On May 24, 2005, the State Internal Auditor presented the findings of his investigation to the Board of the Department of Game and Inland Fisheries. The investigation examined allegations of improper spending, human resource management and other matters. Accompanying this report was a corrective action plan developed by the Secretary of Natural Resources and, with some exceptions about the Secretary's recommendation to the Governor, adopted and endorsed by the Board.

While the State Internal Auditor's report discusses some issues of Board governance recommendations in this report included a more extensive discussion of this issue. We did not include in this report any findings or recommendations which would duplicate the State Internal Auditor's report, except for the general Board governance issues. The State Internal Auditor's report includes extensive recommendations concerning internal controls and other matters and we encourage the Board and the Acting Executive Director to implement all of these recommendations.

Included in the Secretary of Natural Resources response to the report were recommendations to the Governor on the structure of Game and the Board. The Board did not adopt these recommendations, but agreed to consider and discuss them. Below is a discussion of Games' organization and the relation of the Board, Secretary of Natural Resources and the Executive Director.

Organization

Game and Inland Fisheries Board

A supervisory board, appointed by the Governor to four-year terms, governs Game. The Board has 11 members, one from each congressional district. As a supervisory board, members have overall responsibility for Game's operations and also appoint Game's executive director, who serves as the principal administrative officer for Game. 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.

Game and Inland Fisheries Executive Director

The Board appoints Game's Director to act as the principal administrative officer and report directly to the Board. The Code of Virginia specifies that the Director is responsible for the following:

- enforce all laws for the protection, propagation, and preservation of game birds and game animals of the Commonwealth and all fish in the inland waters;
- initiate the prosecution of all persons who violate such laws, and seize and confiscate wild birds, wild animals, and fish that have been illegally killed, caught, transported, or shipped;
- employ persons necessary for the administrative requirements of the Board;
- conduct and establish cooperative fish and wildlife projects with the federal government;
- enter into all contracts and agreements necessary or incidental to the performance of his duties and the execution of his powers; and

- consult with, and keep informed, wildlife and boating constituent organizations so as to benefit Virginia's wildlife and natural resources and accomplish Game's mission.

Secretary of Natural Resources

The Secretary of Natural Resources, appointed by the Governor, has responsibility for Game, among other natural resource agencies. The agencies assigned to the Secretary are required under the Code of Virginia to:

- exercise their respective powers and duties in accordance with the general policy established by the Governor or by the Secretary acting on behalf of the Governor;
- provide such assistance to the Governor or the Secretary as may be required; and
- forward all reports to the Governor through the Secretary.

The Secretary is granted administrative authority within his agencies by the Code of Virginia to do the following:

- resolve administrative, jurisdictional, operational, program, or policy conflicts between agencies or officials assigned;
- direct the formulation of a comprehensive program budget for the functional area, encompassing the services of agencies assigned for consideration by the Governor;
- hold agency heads accountable for their administrative, fiscal and program actions in the conduct of the respective powers and duties of the agencies;
- direct the development of goals, objectives, policies, and plans that are necessary to the effective and efficient operation of government;
- sign documents on behalf of the Governor that originate with agencies assigned to the Secretary; and
- employ such personnel and to contract for such consulting services as may be required to perform the powers and duties conferred upon the Secretary by law or executive order.

Internal Control Findings and Recommendations

Game has been under review by the State Internal Auditor and the media due to the decisions of key administrative personnel related to travel, the acquisition of goods and services, and other personnel matters. While no organization can operate without criticism, much of the current controversy arises from a lack of uniform decision-making that results from the failure to develop and follow written policies and procedures. Also, it appears that the Board has not clearly defined the scope of their responsibilities in the active management of Game.

Internal controls are review checks on the processing of transactions against documented policies and procedures. Our audit found that in most cases Game's system of internal control has appropriate checks to review the processing of transactions. However, overall there is a significant lack of documented policies and procedures and their applicability to all levels of the organization, including senior management and the Board.

The sections below recommend processes that the Board and Game should follow to improve their operations and focus primarily on the development of written policies and procedures.

Clarify Duties and Responsibilities of the Board, Game Director, and Secretary for Following State Guidelines

Game's organizational structure may result in confusion since both the Board and Secretary have similar duties and responsibilities relative to Game. Questions arise such as who is responsible to the Governor for the operations of Game and who defines the policies they must follow. Since the Governor appoints both the Board and Secretary and both answer to him, they must agree on the division of their responsibilities and duties and determine how they can work together to ensure Game fulfills its mission and goals.

We reviewed the Board's governing policies. The Board adopted the majority of their policies in 1990 with two added in 1993 and one in 1995, and we found these policies generally vague and without clear definition of specific roles and responsibilities. Also, these policies did not address the Board's working relationship with the Secretary and how the Board would comply with responsibilities and duties for obtaining approvals or coordinating activities with and through the Secretary.

Underlying the Board's policies appears to be the assumption that staff will keep the Board informed of major state statutes, rules, and policies governing the conduct of state business. We believe that in addition to clarifying the roles and responsibilities, the Board should periodically receive an update on whether its policies comply with state statutes, rules, and policies and how they affect operations.

The Secretary of Natural Resources' response to the State Internal Auditor's report recommended that the Governor consider having legislation introduced to change the Board from supervisory to a policy board, therefore removing their hiring of the Executive Director and financial and daily operating responsibilities. In addition, the Secretary further recommend having the Governor select and appoint the Executive Director.

While we concur that action is necessary to clarify and delineate duties and responsibilities, we believe that there are several alternatives including the one recommended by the Secretary. In addition to the Secretary's recommendation, the following represent some of the alternatives.

- Make the Secretary of Natural Resources and the State Comptroller members of the Board, thereby providing increased supervision and insight into typical internal controls and state procedures;

- Change the Secretary's duties and responsibilities for Game to allow the Secretary to review and oversee the Board's actions similar to his oversight of other agency heads; and

- Clearly define the Board's consequences for failing to properly exercise control over the Executive Director, including in appropriate circumstances, the Secretary's ability to remove or suspend the Executive Director.

There is clearly a need to define the Board, Secretary and Executive Director's duties and responsibilities. Not addressing this issue will continue to result in periodic oversight problems. Any of these alternatives, including the Secretary's recommendation, will require statutory change in the Board duties and responsibilities. Both the Governor and General Assembly will need to address this relationship if they are going to improve Game's operations.

Define the Role of the Chairman

Under the Board's statutory authority, the Chairman has the same duties and responsibilities as any other board member, except to preside over meetings. However, our audit found several instances where the Chairman provided formal instructions to the Game Director, but there is no evidence that other Board members provided consultation or agreement with the instructions. These instances occurred under more than one chairman's leadership and it appears that both the Director and the individual appointed as Chairman assume this is a typical mode of operation.

While on many corporate and other supervisory boards, the Chairman may have additional duties and responsibilities; this is not the case in this circumstance. Since neither the Code of Virginia, nor the Board's governing policies sets out additional responsibilities and duties for the Chairman, all Board members should approve formal instructions to the Director, unless the Board agrees to a level of delegation. If the Board wishes to delegate certain responsibilities to the Chairman to act on their behalf relative to specific matters, the Board should describe and adopt this guidance as part of the Board's governing policies. Collectively, the Board should periodically review this delegation and relationship to ensure it stays within the Board's statutory mandate.

Establish Official Duty Guidance

The Board evaluates the Game Director's performance annually in five broad categories: Leadership; Government and Community Relations; Human Resource Management; Management Systems, Processes and Practices; and Relations with the Board. However, the categories provide no description of the Board's expectations. In addition, as mentioned in the section above, the Chairman has periodically issued formal instructions to the Game Director, but with no evidence that other Board members provided input.

While the evaluation is a personnel matter, all Board members should have a clear understanding of the Game Director's performance expectations. We recommend that the Board collectively develop and communicate clear performance expectations to the Director and any future formal instructions come from the collective Board or provided from a member and ratified at subsequent Board meetings.

Perform a top-down review of existing policies and procedures

Game lacks adequate policies and procedures governing its daily operations and decision-making, causing Game to address problems in a reactive stance. Instead, we believe Game and the Board should be proactive by identifying areas where policies and procedures do not address the standards and mode of operations that Game needs and the Board expects.

Game and the Board should perform a top-down review of existing policies and procedures to determine where they do not exist and those that are outdated or invalid. This review should include the Board's governing rules to ensure they clarify their responsibilities as a supervisory board and spell out whether the Chairman has any additional powers over regular members except to open and close Board meetings.

Game has had a reluctance to adopt and follow policies and procedures, which has contributed to criticism of management's operation of Game. This office has, over time, recommended adoption of policies and procedures and we again believe the Board should make this a management priority for all divisions, activities, processes, and procedures.

Without policies and procedures, Game management and Board members use their judgment when deciding what course of action is appropriate and whether their solution is in line with the Game's goals and mission. Often, this places Game and the Board in the position to later justify actions rather than citing public documents that demonstrate their decision was based on Game's established standards.

Establish Criteria for Official Duties

Many of Game's staff and management are actively involved in activities that the Game oversees, controls, or provides services to, both in their official capacity, as well as on a personal level. In some cases, staff and management are providing services to organizations and groups and at the same time are members of those organizations and groups. While constituent outreach is an important part of Game's goals and mission, this overlap of official duties and responsibilities with membership participation creates confusion and misunderstanding as to the staff and management's participation in activities.

As an example, Game has responsibility for providing instruction in hunting and weapon safety. Many of staff that provide this training also have an active personal interest in hunting and weapon's proficiency. As they develop these skills and participate in various group or organization events, it may become difficult to differentiate whether the staff are there as participants or official representatives of Game. Without some guidance in this area, Game staff and management will continue to receive criticism for purchases, travel, and participation in certain activities since it is unclear why an individual may be participating in an event.

Follow State Guidelines

When reviewing and developing their policies and procedures, Game must incorporate existing State policies and procedures. For example, state travel guidelines mandate that the Secretary must approve all out-of-state travel for the Game Director and within certain criteria, for other personnel. These guidelines should be part of Game's policies and actions. In addition, travel guidelines specify the types of items that the state will pay for when an employee travels and Game's policies should limit acceptable purchases to those items or reference the state's travel guidelines.

It is important that Game's policies and procedures incorporate state guidelines in purchasing, procurement, travel, personnel, and other key reporting areas. If the Board and management determine that they need to deviate from these state guidelines, they should document their reasons for the deviation and establish and publish their internal guidance for all staff and management to follow.

Develop Standards and Norms for Purchases and Supported Programs

Although Game needs to develop written procedures for purchasing, a systemic problem involves their failure to develop standards for the types of purchases they consider normal and acceptable. For example, Game has not standardized the equipment issued to game wardens or defined a formal process for field testing equipment. This lack of procedures has led to purchases that may not appear reasonable because there is no documentation of their use either at time of purchase or of the result at the conclusion of field testing.

Without standards, Game's purchases will continue to draw questions from reviewers and the Board's newly adopted charge card procedures will not prevent purchasing questions from continuing. Instead, the

new procedures will place the Purchasing Review Team in a position to use their judgment in questioning whether a purchase was reasonable and within the mission of Game.

DEPARTMENT OF HISTORIC RESOURCES

The Department of Historic Resources, through its various programs, encourages and supports the identification, evaluation, protection, preservation, and rehabilitation of significant historic, architectural, archaeological, and cultural resources. Historic Resources also establishes and maintains a permanent record of those resources. Finally, Historic Resources administers grants to local governments, museums, historic sites, and other non-state entities under the Financial Assistance for Historic and Commemorative Attractions and the Financial Assistance for Cultural and Artistic Affairs programs.

The Governor appoints Historic Resources' director, who serves as the State Historic Preservation Officer for the purposes of carrying out the federal National Historic Preservation Act of 1966, as amended. The State Review Board and the Board of Historic Resources exist to advise the director in certain program areas. The Board of Historic Resources also designates State landmarks, approves historical markers, and accepts preservation easements on properties.

Financial Highlights

General fund appropriations account for approximately 76 percent of the $5 million in actual funding Historic Resources received for fiscal year 2004. The remaining funding comes from special revenue and federal funds. The following chart illustrates Historic Resources' original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$2,425,390	$3,820,582	$3,820,582
Special revenue	231,076	396,599	494,039
Transportation	100,000	100,000	-
Dedicated special revenue	-	7,672	25,395
Federal	802,540	802,540	633,312
Total	$3,559,006	$5,127,393	$4,973,328

Historic Resources spent approximately $4.8 million on programs during fiscal year 2004. Approximately 47 percent of these expenses represent payroll and employee benefits, 31 percent represents grant award payments, and 13 percent represent contractual services for items such as clerical and skilled services. The remaining 9 percent includes other miscellaneous operating expenses. The chart below shows Historic Resources' total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Financial assistance for cultural and artistic affairs	$ -	$ 993,143	$ 944,912
Historic and commemorative attraction management	2,472,494	3,485,019	3,253,767
Administrative and support services	1,086,512	649,231	575,620
Total	$3,559,006	$5,127,393	$4,774,299

Historic Resources distributes designated grants to non-state entities as directed by the Appropriations Act under the Financial Assistance for Cultural and Artistic Affairs program. The increase in the adjusted budget for this budgetary program is a result of the transfer of these funds from central appropriations to Historic Resources for distribution. The significant increase in adjusted budget for Historic and Commemorative Attraction Management is primarily attributable to the re-appropriation in fiscal year 2004 of two-year historic grants that were not disbursed in fiscal year 2003 and the transfer of funding from Administrative and Support Services to reflect actual operations, per the authority provided in section 4-1.03 of Chapter 1042 of the Appropriation Act.

MARINE RESOURCES COMMISSION

The Commission manages the Commonwealth's marine fishery and habitat resources. It manages publicly-owned oyster beds, leases oyster planting grounds, constructs artificial reefs to enhance habitat, and is responsible for Virginia's streambeds and tidal bottomlands, wetlands, and dunes. The Virginia Marine Police, the Commission's law enforcement division, enforces boating, fishery, and habitat management laws and regulations in tidal waters. It also provides search and rescue services and public health services related to seafood.

Financial Highlights

The Commission had approximately $17.3 million in actual funding for fiscal year 2004. Almost 50 percent of the revenue represents general fund support used primarily in the Commission's marine life management programs. The following chart illustrates the Department's original budget, adjusted budget, and actual funding received for all of their funds

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$ 8,235,884	$ 8,385,586	$ 8,385,586
Special revenue	5,221,445	5,375,347	2,739,406
Trust and agency	253,429	-	457
Dedicated special revenue	315,000	636,310	2,322,469
Federal	2,439,841	4,213,841	3,666,721
Total	$16,465,599	$18,611,084	$17,114,639

The special revenue fund includes the sale of saltwater fishing licenses, sold by the Department of Game and Inland Fisheries on behalf of the Commission. For the convenience of citizens, individuals may purchase these licenses simultaneously when making a freshwater fishing license purchase. The Department of Game and Inland Fisheries records the revenue associated with these sales and subsequently transfers the revenue to the Commission. The dedicated special revenue fund includes dredging royalties collected on habitat permits and in fiscal 2004 there were several, large one-time dredging royalties collected, accounting for the increase of actual funding above the original budget amount.

The Commission spent approximately $14 million on programs during fiscal 2004. About 50 percent of these expenses represent payroll and benefits of employees; 15 percent represents contractual services for items such as fish tagging and aging, habitat restoration, and payments to the Department of General Services for the use of state-owned vehicles; 13 percent for the purchase of supplies such as oyster shells for seeding programs; and 11 percent for transfer payments, including one-time payments to 1,535 participants in a federal grant titled the Virginia Blue Crab Disaster Assistance Program. The remaining 11 percent represents other operating expenses and the acquisition of equipment. The chart below shows the Commission's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Marine life management	$13,546,154	$15,631,831	$11,298,082
Costal lands management	1,362,923	1,419,967	1,273,724
Tourist promotion	205,000	205,000	183,909
Capital outlay	-	3,202	-
Administrative and support services	1,351,522	1,351,084	1,332,926
Total	$16,465,599	$18,611,084	$14,088,641

VIRGINIA LAND CONSERVATION FOUNDATION

The Virginia Land Conservation Foundation establishes permanent conservation easements and purchases open spaces, parklands, lands of historic or cultural significance, farmlands, forests, and natural areas for recreational or habitat protection purposes. The Foundation also provides matching grants to state agencies, local governments, public bodies, and registered nonprofit groups for purchasing fee simple title to or other rights, interests or privileges in such property.

General Assembly appropriations to fund the Foundation and interest revenue on the unexpended fund balance totaled $889,252 for fiscal year 2004, which the Foundation records in a dedicated special revenues fund. As such, the Foundation can carry-forward unexpended balances to future years. Actual expenses under the Foundation's one program, Leisure and Recreation Services, totaled $1,463,148. Ninety-one percent of these expenses are matching grants.

VIRGINIA MUSEUM OF NATURAL HISTORY

The Virginia Museum of Natural History, located in Martinsville, serves to preserve, study, and interpret the Commonwealth's natural heritage by providing research sites, exhibits and programs for the public. Due to budget reductions, the Museum no longer funds or maintains the two branches at Virginia Tech, in Blacksburg, and at the University of Virginia, in Charlottesville.

Financial Highlights

The Museum has approximately $14.8 million in capital project funding from the sale of bonds issued through the Virginia Public Building Authority (VPBA). The proceeds, designated for construction of a new museum facility, are included in the caption debt service in the schedule below. In addition to the VPBA bonds, the Museum hopes to raise $3.4 million of special revenue funds and then get the remainder out of the general fund. Since the museum began construction in June 2004, only a small portion of the funds were expended during the fiscal year, however, they will be carried forward until the building is substantially completed in Fall 2005 and completed by January 2006. The new museum is expected to open to the public in the Fall of 2006.

Other than capital outlay, the remaining funds operate the Museum. Total operating cost are approximately $1.9 million with the personal service cost constituting 80 percent and continuing charges primarily heating, lighting and other operating costs being 10 percent.

The following chart illustrates the Museum's original budget, adjusted budget, and actual funding received for all of their funds

Analysis of Budgeted and Actual Funding

Fund Type	Original Budget	Adjusted Budget	Actual Funding
General	$1,513,966	$ 1,737,207	$1,737,207*
Special	3,889,601	3,889,601	241,407
Debt service	-	14,789,000	-
Federal	-	30,000	20,455
Total	$5,403,567	$20,445,808	$1,999,069

*includes maintenance reserve funds.

The chart below shows the Museum's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

Budgetary Program	Original Budget	Adjusted Budget	Actual Expenses
Museum and Cultural Services	$1,958,567	$ 2,069,454	$1,843,372
Capital Outlay	3,445,000	18,376,354	95,218
Total	$5,403,567	$20,445,808	$1,938,590

VIRGINIA OUTDOORS FOUNDATION

The Virginia Outdoors Foundation created in 1966 by the General Assembly has a Board of Trustees appointed by the Governor. The Foundation promotes the preservation of open space lands and encourages gifts of money, securities, land, and other property to preserve the natural, scenic, historic, open-space, and recreational areas of the Commonwealth. The primary mechanism for accomplishing Foundation's mission is obtaining open space easement, of which the Foundation currently holds easement on over 288,893 acres in 87 localities and owns approximately 3,500 acres of gifted open land plus one historic site.

The Foundation also administers funds in the Open Space Lands Preservation Trust Fund. The 1997 General Assembly created the Fund to assist landowners with the costs of conveying conservation easements and to purchase all of part of the value of easements.

The Foundation's assets and liabilities, respectively, at June 30, 2004 were $8,100,109 and $117,747. Assets consist of $1.3 in cash and investments, and $6.7 million in equipment, open land and one historic site, net of depreciation. Income and Expenses for Fiscal Year 2004 totaled $760,862 and $996,650, respectively. In addition to General Assembly appropriations for fiscal year 2004, the Foundation received funding from donations, rental, and interest income. For fiscal year 2005, the Foundation's funding has increased significantly due to increased appropriations combined with a new recordation fee for real estate deeds. These funds should allow the Foundation to operate with a net operating income at the end of fiscal year 2005 as opposed to the operating losses experienced in fiscal years 2003 and 2004.

The Foundation also owns approximately 3,500 acres of open land and one historic site. Some of these sites help meet a demand for public access and low-intensity recreational use at negligible cost to the Commonwealth.

- Aldie Mill Historic Site, Loudoun County
- Blue Ball Mountain, Clarke County
- House Mountain, Rockbridge County
- Kohl's Island, Northumberland County
- Bull Run Mountains, Fauquier and Prince William Counties: 2,500 acres

With the ever growing number of easements acquired by the Foundation, the Foundation takes on a greater stewardship and monitoring role. The Foundation staff responds to questions from landowners, prospective buyers, real estate agents and attorneys on an ongoing basis and regularly engages in the review of forestry plans, building plans, and Virginia Department of Transportation road projects to make sure easement lands remain protected. This stewardship function of the conservation easement program is crucial to its overall success.

With the increase in stewardship responsibility as well as the continued goal to accept new easements, the Foundation recognizes that their human, material and technology resources should grow along with their increased responsibilities for protecting open land space. However, the Foundation is facing critical decisions as they determine how to best structure their organization and implement sound business practices that will support their mission and growth in years to come. The five year trend data below shows that the Foundation has received more than half of their total easement acres in the past five years. The Foundation anticipates that this trend will continue as recently enacted state and federal tax incentives provide even greater benefit to easement donors.

Easements By Year

Year	Number of Easements	Acreage
2004	198	41,603
2003	131	22,664
2002	211	36,976
2001	155	22,702
2000	188	28,726
5 Year Total	883	152,671
Overall Total	1,624	283,712

If the Foundation does not ensure future funding to adequately monitor the existing easements held, in addition to the related administrative costs, the Foundation could be risking their status as a qualified conservation organization as defined by the Internal Revenue Service. Landowners must use a qualified conservation organization to receive a tax credit for their easements. The Foundation should determine the true costs of reviewing, accepting and monitoring new easements. With that knowledge, the Foundation can make better informed decisions about how to manage their growing stewardship program.

The Board of Trustees should develop a process that involves both management and the Board in setting policy, planning, and oversight functions. Additionally, the Board should set forth its expectation of management and the information it needs to review to exercise its oversight responsibilities.

Internal Control Findings and Recommendations

Historically, the Foundation has had only a few staff and relied on part time personnel and volunteers to help with the administrative and finances of the organization. The Foundation has also had access to state personnel to assist in the maintenance and upkeep of its records. As the Foundation expands, the need to improve internal controls in the areas of administration, finance, and human resources expands with these additional duties.

Considering the nature of the Foundation and its limited activities in the past, the following internal controls issues represent the need to address this expansion with the need to have accountability. We believe that several alternatives exist for the Foundation to address these issues without solely attempting to hire and manage additional internal staff.

While the executive director has begun addressing these issues, we believe other effective and potentially less costly alternatives exist. Simply stated, we believe the single largest problem facing the Foundation is developing, maintaining, and supervising the staff to perform and maintain a system of internal controls for administrative, finance, and human resource activities.

A practical solution to this on-going problem is examining one of the following three alternatives:

- contract the administrative, finance and human resource functions out to a contractor who would have a day to day relationship with the executive director and his management team, but would report directly to the Board for policy issues and approval of certain transactions;

- partner with another not for profit organization, who would provide same services as the contractor, but would have some closer understanding of the Foundation's operations; or

- have a memorandum of understanding with a state agency or institution to perform these services similar to a contractor.

Whatever alternative the Board and executive director select, they will need to ensure that the arrangements undertaken address the following internal control issues. These internal control issue salutations need to consider more than the form of the problem, but provide for true long-term accountability.

Establish Policies and Procedures over Administrative, Financial, and Human Resource Activities

The Foundation does not have a comprehensive written policies and procedures manual over their administrative, financial, and human resource functions. The following provides evidence of the weaknesses

identified as a result of the lack of written policies and procedures and in some cases the size of the organization.

Bank Accounts: The Foundation needs to implement procedures to eliminate the duplicate checkbook registers maintained since the implementation of their automated financial system. Discrepancies between the checkbook registers went undetected and several bank statements were not reconciled to the automated system for up to eight months late. Additionally, the Foundation has not notified their banks that their funds are public deposits and appropriately reported to the Virginia Department of Treasury under the Virginia Security for Public Deposit Act.

Inadequate Expense Voucher Documentation: We noted several expense vouchers with inadequate supporting documentation. In one instance, an employee submitted expense reimbursement requests for expenses incurred nearly nine months earlier in the prior fiscal year as well as receipts that included incorrect dates. In a second instance, an employee presented only summary billing information which did not support reimbursement of cellular telephone calls on an employee's personal phone.

Small Purchase Charge Card: The charge card program delegates purchasing authority for small purchases to end users. The Foundation recently developed policies and procedures over the charge card program but we found them to be inadequate. Management should implement user agreements and procedures that address unallowable purchases, circumventing purchasing limits, tracking and reconciling purchases timely, purchase card security and consequences for failing to adhere to purchasing cards procedures.

Gift Shop Operations: The Foundation operates a museum gift shop at the historic Aldie Mill. Currently, the Foundation relies upon the same employee to order inventory, collect cash sales, and perform inventory counts. We found the inventory counts to be incomplete as to amounts and counts and used for no purpose as the Foundation does not record the inventory on its financial records or perform any analysis of the inventory compared to sales. Management should establish written policies and procedures that ensure adequate separation of duties and accountability for all inventory items and cash sales.

Fixed Assets Inventory: The Foundation lacks controls over their fixed asset inventory. The Foundation should establish policies and procedures to ensure ownership through the use of property tags, establish and maintain an accurate central record of all fixed assets, and ensure timely periodic inventory counts for comparison to central records. Additionally, the Foundation should evaluate its policy to capitalize all equipment purchases. The Foundation has not consistently applied this policy and may find it cost beneficial to establish a minimum capitalization threshold where there is need to only capitalize and maintain a central equipment record for purchases meeting or exceeding the threshold. Management should establish written policies and procedures that ensure adequate purchasing, recording, monitoring, and disposal of all fixed assets.

Financial Reporting: The Foundation's financial statements do not properly reflect all activities of the Foundation. We found the following areas of concern:

- The Foundation does not depreciate property improvements.

- The Foundation continues to report one petty cash account that was eliminated and reports a second petty cash account as assigned to an employee that no longer works at the Foundation. The Foundation has turned these funds over to another employee but has done so without a signed custodian form.

- The Foundation reports compensated absences when reporting to the Department of Accounts, but fails to record them on their internal financial reporting system.

- The Foundation received funds from two other state entities for the purpose of purchasing an easement as well as paying expenses related to accepting the easement. However, the Foundation did not record the income from these grants or the expenses related to acquiring the easement in their financial statements.

- The Foundation does not report purchased easements as assets to the Department of Accounts or on their internal financial reports. The Foundation should include easement values at cost in accordance with GASB 34.

  The Foundation should implement policies and procedures to ensure proper reporting to the Department of Accounts as well as their internal financial reporting system.

Human Resources Activities: The Foundation should establish written policies and procedures to ensure proper controls are established and maintained for critical human resources activities. Such a manual should include, but is not limited to:

- Adequate and updated job descriptions for all employees
- Description of all fringe benefits offered to employees
- Adequate leave accrual and usage documentation
- Timesheet standards, usage and certifications
- Hiring, termination and retirement of employees
- Salary structures and bonus plans, if any

Automated Leave System: The Foundation maintains an automated leave system however there is not an adequate audit trail to support leave accruals, usage and adjustments. We found several instances of unrecorded leave usage during the correct pay period due to timesheet errors or failure to submit timesheets timely. While subsequent adjustments occurred, the system audit trail was insufficient to confirm the adjustments to the balances. We also found instances of incorrect leave accrual rates in the automated system. The Foundation should determine if improvements in the system are possible or establish compensating controls to ensure the appropriate audit trail exists.

Compensatory leave: The Foundation's compensation leave earning policy is complex and difficult for employees to apply to their timesheet. There were many instances where employees incorrectly calculated compensatory leave and the Foundation must rely on supervisor reviews to catch any errors. While supervisors caught most errors through the administrative review process, the Foundation should consider the effort needed to make these calculations compared to the benefit. The Foundation does not maintain compensatory leave in the automated leave system due to system limitations. The Foundation should consider ways to simplify and automate the tracking of the compensatory leave.

As the Foundation continues to grow, it is imperative that the Foundation establish sound business practices. Management should be providing a comprehensive policies and procedures manual that provides appropriate internal controls over all aspects of administrative, financial, and human resource activities. Where the Foundation finds that separation of duties is limited due to geographic location or staff size, then the Foundation must include strong management oversight as a compensating control. These controls must be in writing and enforced to be effective.

Improve Security Access over Financial System

The Foundation has written procedures outlining which employees have access to the automated financial system. Establishing appropriate security policies is a key step for ensuring that access to data is properly restricted. However, the security access levels currently in place presents a potential security risk to the system as noted below:

- Three employees share an Administrator password, which provides complete access to all facets of the automated financial system, including general ledger, leave balances, payroll, and security functions. It is critical that employees not share passwords, especially those that can significantly affect the recording of transactions.

- The Deputy Director maintains administrator access to the financial system as well as custody of Foundation funds. Custody of funds and recordkeeping responsibilities are incompatible duties and result in a lack of separation of duties giving one individual both access to assets and the ability to change the records without detection. The Foundation should assign the duties to different employees.

- The Foundation attempted to better secure access to payroll functions but the new process relies upon the Administrator user to change the password for the newly created payroll ID on a monthly basis. The Foundation should consider other options or compensating controls to avoid this process.

The Foundation acknowledges the importance of security over the automated financial system. We encourage them to continue improving their security processes through the development of a comprehensive information technology policies and procedures manual. The manual should incorporate general and application controls over all technology based systems. Failure to properly implement policies and procedures could lead to improper controls placed on the Foundation's systems and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 19, 2005

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

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have completed an audit of the following Secretary of Natural Resource Agencies for the period July 1, 2003 through June 30, 2004:

Chesapeake Bay Local Assistance Department
Chippokes Plantation Farm Foundation
Department of Conservation and Recreation
Department of Environmental Quality
Department of Game and Inland Fisheries
Department of Historic Resources
Marine Resources Commission
Virginia Land Conservation Foundation
Virginia Museum of Natural History
Virginia Outdoors Foundation

We conducted our overall review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

Our objectives for the audit of the Secretary of Natural Resource agencies were to determine that:

- revenues and expenditures are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with significant laws and regulations; and
- management has established and maintained internal controls over the revenues and expenditures tested.

Audit Scope and Methodology

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Secretary of Natural Resource agencies' 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
Expenses, including payroll
Fixed Assets
Capital Outlay, but only for the Departments of Conservation and Recreation and Game and Inland Fisheries

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Secretary of Natural Resource agencies' controls were adequate, had been placed in operation, and were being followed.

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, regulations, contracts, and grant agreements. 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 Secretary of Natural Resource agencies properly stated, in all material respects, the revenues and expenses recorded in the Commonwealth Accounting and Reporting System.

We noted some matters involving internal control and its operation that we considered necessary to bring to management's attention. These matters are described within the Department of Game and Inland Fisheries and Virginia Outdoors Foundation sections of this report, in the subsections entitled "Internal Control Findings and Recommendations."

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.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

Exit Conference

We discussed this letter with management at an exit conference held on June 6, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH/kva

COMMONWEALTH of VIRGINIA

Office of the Governor

W. Tayloe Murphy, Jr.
Secretary of Natural Resources

P.O. Box 1475
Richmond, Virginia 23218

(804) 786-0044
Fax: (804) 371-8333
TTY: (804) 786-7765

June 14, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

Your report on the audit of the Secretary of Natural Resource Agencies for the period July 1, 2003 through June 30, 2004, has been shared with me and the agencies involved during every stage of the preparation of the report, and I thank you for taking the time to personally review with me your findings and recommendations.

I am especially grateful for the opportunity to comment on those portions of the report applicable to the Department of Game and Inland Fisheries and the Virginia Outdoors Foundation. Both of these agencies have responded separately, and I support their replies. Moreover, I wish to assure you that I personally concur in your findings, and I will work with these agencies to implement the corrective action that they have proposed. I will continue to work independently to promote the implementation of the recommendations I made to the Governor to reclassify and reorganize the Department of Game and Inland Fisheries.

Thank you again for giving me the opportunity to file this response to be made a part of your report.

Sincerely,

W. Tayloe Murphy, Jr.

WTMJr/cbd

COMMONWEALTH of VIRGINIA

W. Tayloe Murphy, Jr.
Secretary of Natural Resources

Department of Game and Inland Fisheries

William L. Woodfin, Jr.
Director

June 9, 2005

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

Dear Walt:

The Department of Game and Inland Fisheries (Department) values the efforts of the APA and welcomes its comments concerning the operations of the Board of Game and Inland Fisheries and the Department. We share the same goals with respect to the agency's policies and internal control environment and look forward to working with you in the future.

We concur that there needs to be clarification of duties and responsibilities of the Board, Department Director, and Secretary of Natural Resources. The Board has established a policy subcommittee and a governance subcommittee to address these issues. We also concur with the recommendations that the Department's Board needs to define the role of the Chairman and establish official duty guidance for the Director. These subcommittees will also address these findings. We also anticipate that the Board will establish an audit committee to address these issues.

The Department is currently in the process of documenting, reviewing and revising all of its procurement, travel, personnel and associated operating policies and procedures. The Department plans to complete this process by October 30, 2005. This process will address the following internal control weaknesses cited in your report:

- Establish Criteria for Official Duties for staff and management involved in activities that the Department oversees, controls, or provides services to, both in their official capacity and personal or recreational pursuits.
- Department's policies and procedures will incorporate state guidelines in purchasing, procurement, travel, personnel, and other key reporting areas.
- Develop standards and norms for purchases and supported programs

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The above listed actions will enhance the Department's internal control environment and ensure compliance with all applicable State guidelines.

The Board and the Department will also give close attention and serious consideration to the general and specific recommendations from the Internal Auditor, the Secretary of Natural Resources and your agency in the matters recommended and discussed in those documents.

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

Sincerely,

Colonel W. Gerald Messengill
Interim Director

Sincerely,

Sherry S. Crumley, Chairman
Board of Game and Inland Fisheries

Virginia Outdoors Foundation

Richmond Office
101 N. 14th St., 17th Flr, Richmond, VA 23219
(804) 225-2147 FAX (804) 371-4810

www.virginiaoutdoorsfoundation.org

Encouraging the preservation of open space

June 3, 2005

Walter J. Kucharski
Auditor of Public Accounts
101 N. 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Mr. Kucharski:

On behalf of the Virginia Outdoors Foundation (VOF) and in my capacity as Executive Director, I have reviewed the findings and recommendations provided by the Auditor of Public Accounts in this report. I generally concur with the findings and recommendations for the audit review period July 2003 through December 2004. VOF staff will work under the auspices of the Office of the Secretary of Natural Resources and in close collaboration with the Department of Conservation and Recreation to address all the audit findings and recommendations and to develop and implement administrative policies and financial accounting and reporting systems that meet generally accepted standards for governmental transactions and reporting.

Sincerely,

G. Robert Lee
Executive Director

GRL/pac

Cc: The Honorable W. Tayloe Murphy, Jr., Secretary of Natural Resources
Joseph H. Maroon, Director of the Department of Conservation and Recreation
Frank Kilgore, Chair, VOF Board of Trustees
Sherri H. Wyatt
Carol MacVaugh

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(As of June 30, 2004)

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DEPARTMENT OF CONSERVATION AND RECREATION Richmond, Virginia	Joseph H. Maroon Director
DEPARTMENT OF ENVIRONMENTAL QUALITY Richmond, Virginia	Robert Burnley Director
DEPARTMENT OF GAME AND INLAND FISHERIES Richmond, Virginia	William L. Woodfin, Jr. Director
DEPARTMENT OF HISTORIC RESOURCES Richmond, Virginia	Kathleen Kilpatrick Director
MARINE RESOURCES COMMISSION Richmond, Virginia	William A. Pruitt Commissioner
VIRGINIA LAND CONSERVATION FOUNDATION Richmond, Virginia	W. Tayloe Murphy, Jr. Chairman
VIRGINIA MUSEUM OF NATURAL HISTORY Martinsville, Virginia	Timothy Gette Executive Director
VIRGINIA OUTDOORS FOUNDATION Richmond, Virginia	G. Robert Lee Executive Director

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