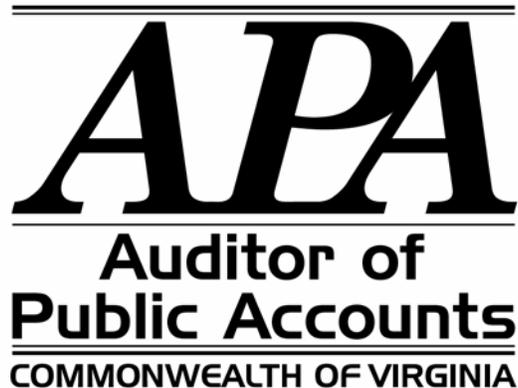


**DEPARTMENT OF GAME AND INLAND FISHERIES**

**REPORT ON AUDIT**

**FOR THE PERIOD**

**APRIL 1, 2006 THROUGH MARCH 31, 2007**



## **AUDIT SUMMARY**

Our audit of the Department of Game and Inland Fisheries (Game) focused primarily on policies and procedures in the areas noted in our prior Game audit report and areas of concern in the Department of the State Internal Auditors' 2005 fraud investigation. Specifically, we reviewed policies and procedures and tested for their compliance in the areas of personal services, charge card purchases, equipment inventory, procurement, travel, vehicles, video production, uniforms, equipment field testing, and Board governance.

Overall, we found that:

- Game has established adequate written policies and procedures to address prior deficiencies that comply with established Commonwealth policies and procedures and other relevant laws and regulations;
- Game has controls, which they follow, to monitor compliance with their policies and procedures;
- The revenues and expenses as reported in the Commonwealth Accounting and Reporting System are materially correct; and
- Game has adequate policies and procedures for each of their major information systems.

Our report includes several recommendations for Game to continue to enhance their processes and controls.

- T A B L E O F C O N T E N T S -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY BACKGROUND	1
FINANCIAL HIGHLIGHTS	1-3
AUDIT OBJECTIVES	3-4
AUDIT FINDINGS AND RECOMMENDATIONS	4-5
TRANSMITTAL LETTER	6-7
AGENCY RESPONSE	8-9
AGENCY OFFICIALS	10

## AGENCY BACKGROUND

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 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 five divisions and operates five regional and six district offices and nine fish hatcheries throughout the Commonwealth. The five divisions include Law Enforcement, Wildlife, Fisheries, Wildlife Diversity, and Administrative Services.

The Game and Inland Fisheries Board, a supervisory board, oversees the department’s operations and appoints the Executive Director, who serves as the principal administrative officer. The Board has 11 members, one from each congressional district, appointed by the Governor to four-year terms. The Board elects one of its members as its Chairman, who presides at all meetings of the Board, but who has no additional powers or authority other than those given to the other board members.

## FINANCIAL HIGHLIGHTS

Table 1 presents Game’s original and adjusted budget, by program, as well as their actual expenditures in those programs for fiscal year 2006. The wildlife and freshwater fisheries management program makes up the majority (57 percent) of the Game’s actual expenditures.

**Table 1**

<u>Analysis of Budgeted Funding and Actual Expenditures - Fiscal Year 2006</u>			
<u>Program:</u>	<u>Original</u>	<u>Adjusted</u>	<u>Expenditures</u>
Wildlife and freshwater fisheries management	\$34,276,258	\$39,050,440	\$35,628,152
Administrative and support services	6,670,794	6,869,549	6,676,268
Boating safety and regulation	4,479,465	5,267,683	4,778,323
Capital outlay projects	<u>1,750,000</u>	<u>34,961,035</u>	<u>15,807,457</u>
Total	<u>\$47,176,517</u>	<u>\$86,148,707</u>	<u>\$62,890,200</u>

Source: Commonwealth Accounting and Reporting System; 2006 Original Budget-Appropriation Act, Chapter 951

Game receives funding from several sources to pay for their programs including the sale of hunting and fishing licenses, boat registrations, federal grants and contracts, watercraft sales and use taxes, sales and use taxes collected from the sale of hunting and fishing related equipment, and voluntary taxpayer contributions to non-game wildlife as designated from their state income tax refund, to name a few.

Game indirectly receives General Fund revenue collections from a portion of the sales and use taxes derived from the sales of hunting and fishing products, up to \$13 million annually. These sales and use taxes totaled \$10.5 million in fiscal 2006 based on information from the US Fish and Wildlife Survey. Game also indirectly receives General Fund revenue collections from sales and use taxes on new watercraft sales. In

fiscal 2006 Taxation reported these collections at \$7.7 million; however, the Appropriations Act limited the transfers to Game at \$4.3 million. Quarterly, the Comptroller transfers the appropriate amount of collections from these taxes to the Game Protection Fund, which the Commonwealth classifies as a Dedicated Special Revenue fund. The Game Board manages the Game Protection Fund and uses it to pay salaries, allowances, wages, and expenses incident to carrying out hunting, trapping and inland fish laws.

The Game Board may also transfer up to fifty percent of the revenue generated annually from the sales and use tax to a Capital Improvement Fund to purchase, construct, maintain, or repair Game’s capital assets. The Capital Improvement Fund may accumulate up to \$35 million, but if it accumulates more than \$35 million then the sales and use taxes remain in the General Fund until the Capital Improvement Fund is less than \$35 million.

Table 2 below provides a breakdown of Game’s revenue and transfers from the General Fund:

**Table 2**

Details of Game’s Actual Revenue and General Fund Transfers– Fiscal Year 2006

<u>Source:</u>	<u>Amount</u>
Hunting and fishing licenses	\$18,963,221
Net Transfers to the Game Protection Fund from General Fund sources	13,773,348
Federal grants and contracts	12,295,988
Other, including insurance proceeds, timber sales, publication sales	4,520,365
Boat licenses and watercraft titling fees	<u>3,492,266</u>
 Total net revenue	 <u>\$53,045,188</u>

Source: Commonwealth Accounting and Reporting System

Table 3 details Game’s actual expenses by major object. In fiscal year 2006, personal services accounted for the majority of Game’s expenses at 48 percent. Property improvements, at 22 percent, include expenses for improvements to Game’s assets such as fish hatcheries and dams. Contractual services include expenses for communication services, repair and maintenance services, support services, and technical services.

**Table 3**

Expenses by Major Object - Fiscal Year 2006

<u>Major Object</u>	<u>Expenses</u>	<u>Percent</u>
Personal services	\$29,961,328	48%
Property improvements	13,821,883	22%
Contractual services	9,010,582	14%
Equipment	4,158,810	7%
Supplies and materials	3,197,063	5%
Continuous charges	1,407,864	2%
Plant and improvements	954,991	1%
Transfer payments	<u>377,679</u>	<u>1%</u>
 Total expenses	 <u>62,890,200</u>	 <u>100%</u>
 Less: capital outlay included above	 <u>15,807,457</u>	
 Total operating expenses	 <u>\$47,082,743</u>	

Source: Commonwealth Accounting and Reporting System

Comparing revenues in Table 2 to expenses in Table 3, Game's revenues were sufficient to cover their operating expenses. However, when considering Game's capital expenses, they spent almost \$10 million more than the generated revenue. This amount represents the spending of fund balance from within the Game Protection Fund. The Game Protection Fund accumulates funds until Game needs them to pay for projects such as future capital improvements. Excluding their capital outlay in fiscal 2006 Game's revenues paid for their current operations, but their operation is highly dependent on receiving a portion of the General Fund's sales and use taxes. In summary, Game's fees for licenses as well as the Federal grants they receive are not sufficient to sustain their current operations, excluding any capital outlay.

Game's capital outlay expenses of \$15.8 million for fiscal year 2006 included \$6 million to acquire a 2,400-acre parcel of land for a Feather and Fin Farm, as required by Chapter 951 of the Appropriations Act. Game also spent about \$4.5 million for repairs to wildlife management areas and facilities, \$1.2 million to improve and repair fish hatcheries, \$2.3 million for general maintenance, and the remaining \$1.8 for dam safety compliance and boating access repairs. Game's projections show future capital outlay needs to remain fairly stable; although, the staff projects a shift the nature of expenses. For example, Game anticipates an increased need for more outlay to pay for dam maintenance which is necessary to bring Game-owned dams up to federal and state safety standards. Currently Game plans to continue to pay for their capital improvements from the Game Protection Fund, but the Fund is not sufficient to sustain both operations and meet all their capital improvement needs beyond 2011.

Game management and the Game Board are aware of their financial situation and actively monitor trends and project future activity in the areas that generate their revenue. For example, sales of hunting and fishing licenses are declining nationwide at an average rate of 1 percent annually and Game's analysis noted a similar trend in Virginia. In fiscal 2007, the Game Board authorized price increases to offset the declining sales and ensure Game continues to generate sufficient revenue levels. The Game Board carefully contemplated this rate increase before its approval due to concern that the increase would result in fewer license sales. To date, it does not appear that the price increase affected sales of licenses.

Game management also prepares detailed models that project revenue and expense trends. Their most recent model projection prepared for the Game Board's Finance, Audit and Compliance Committee in May 2007 gives projections through 2013. The model uses management's best estimate of sales trends, taxpayer contributions, new watercraft sales and renewals of existing watercraft registrations, predictions of personnel levels and operating expenses, as well as property improvements that they recommend. It is in the May 2007 model projection that Game estimates if current trends continue and Games continues to fund property improvements at their required levels, Game will run out of Game Protection Fund moneys beginning in fiscal year 2011 and will operate at a deficit. This model is an excellent tool that provides the Game Board with information so they can take action now that will prevent the trends from actually occurring.

## **AUDIT OBJECTIVES**

Our audit objectives were to determine that:

- Game has established adequate written policies and procedures to address prior deficiencies that comply with established Commonwealth policies and procedures and other relevant laws and regulations;
- Game has controls, which they follow, to monitor compliance with their policies and procedures;

- The revenues and expenses as reported in the Commonwealth Accounting and Reporting System are materially correct; and
- Game has adequate policies and procedures for each of their major information systems.

In 2005 the Department of the State Internal Auditor conducted an investigation into specific allegations regarding Game. Simultaneously, we performed our regularly scheduled financial-related audit. While both audits focused on different activities, both reports included specific recommendations directed toward improving Board oversight and governance and providing better control over Game's daily operations. In April 2006 we issued a follow-up report that noted where appropriate change had occurred and where policies and procedures were still necessary.

This year our audit consisted of a follow-up to prior recommendations and tests of transactions to determine that Game complied with their policies and procedures. In addition we expanded our scope to include a review of certain information technology controls since Game is highly dependent on their information systems. Below are our specific audit findings and recommendations that resulted from our audit.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### Introduction

In response to the Department of the State Internal Auditors' 2005 fraud investigation, Game established procedures to control several control weaknesses. As part of this audit, we reviewed the implementation of the processes and have the following three findings. The remaining two findings relate to our review of information security controls which we performed in addition to the 2005 fraud investigation follow-up.

#### Follow Media Policy to Provide Timely Reports of Activity

Game implemented a policy which requires the Media Services Office to submit quarterly project status reports to the Game Director. This policy resulted from concerns that Media Services was preparing media presentation for groups outside of Game.

Our work found that in November 2006, Media Services provided the first three quarterly reports for fiscal 2006 and has not provided the fourth quarterly report as of the end of this audit. We recommend Game follow their Media Services policy to reduce the risk that an individual will request Media Services to edit and/or produce film, or other forms of media, without the Game Directors knowledge.

#### Follow Travel Approval Policies

Game has a policy requiring the Secretary of Natural Resources approval for employees taking international trips. We tested four travel vouchers for conferences in Alaska and Canada, which did not have the Secretary of Natural Resources approval. Since Games policy does not define international travel, we applied the State Comptroller's standard which defines international travel as all travel to areas outside the 48 contiguous United States.

Game developed their current policy in response to incidents where the Board later determined that the international travel was inappropriate. Although, these trips appear reasonable,

we recommend Game staff consistently apply the Board approved policy. However, if Game intended to apply a different definition of international travel than that of the State Comptroller, we recommend they clarify their policy in writing.

#### Retain Documentation of Monthly Purchasing Reviews

Game has established procedures to review purchase activity monthly. In addition to supervisory reviews of procurement logs monthly, the Accounting Manager, along with the Administrative Services and Purchasing Directors, agreed to review all purchases over \$1,500 and an additional sample of ten percent of employees' purchase logs. The Accounting Manager matches the selected purchases to supporting documentation, reviews them for proper approvals, and evaluates them for reasonableness.

For most of the monthly activity we tested, the Accounting Manager could not provide documentation to support the discussion and resolution of issues he detected during his reviews. We recommend that the Accounting Manager retain documentation as evidence that he is performing the reviews and to support his conclusion that staff explanations are reasonable for exceptions he finds.

#### Provide Sufficient Password Controls

Game does not have sufficient password controls. For example, passwords do not expire after a period of time, allowing users to keep their passwords indefinitely. This process increases the risk that others will learn passwords of co-workers and use them to gain unauthorized access.

Password expiration, password history, and password lockouts are part of strong password controls. We recommend Game integrate these password controls into their existing system to decrease the risk of unauthorized access. In addition, password controls are required as part of the Virginia Information Technologies Agency security standard and are also industry best practices.

#### Provide Data Encryption

Game does not have proper encryption for sensitive data transmission. Game transmits passwords and other sensitive data within Game's network in plain text, providing the opportunity for an unauthorized user to see and use information inappropriately. Specifically, an unauthorized user could gain account access or falsify network communications using the plain text information.

Game must provide encryption or another type of control to prevent unauthorized data access on the Game network. In addition, the Virginia Information Technologies Agency (VITA) security standards require agencies to provide encryption over sensitive data and this also follows industry best practices. We recommend Game evaluate how they can provide encryption for their sensitive data and develop a plan for its future implementation.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

June 1, 2007

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

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

We have completed an audit of the **Department of Game and Inland Fisheries** as of June 1, 2007. We conducted our overall audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Scope

Our audit examined activities for the period April 1, 2006, through March 31, 2007. We focused primarily on policies and procedures in the areas noted in our prior Game audit report and areas of concern in the Department of the State Internal Auditors' 2005 fraud investigation. In addition we reviewed certain controls over Games information systems and financial reporting.

## Audit Methodology

Our work consisted of management and departmental inquiries, gaining an understanding of processes and controls by reviewing current policies and procedures, examining Game's documentation, and selecting and testing various transactions.

We discussed this report with the Game Director and members of Game management at an exit conference on June 5, 2007.

## Audit Conclusion

Overall, we found that:

- Game has established adequate written policies and procedures to address prior deficiencies that comply with established Commonwealth policies and procedures and other relevant laws and regulations;
- Game has controls, which they follow, to monitor compliance with their policies and procedures;

- The revenues and expenses as reported in the Commonwealth Accounting and Reporting System are materially correct; and
- Game has adequate policies and procedures for each of their major information systems.

Our report contains recommendations throughout to continue to improve processes and controls.

AUDITOR OF PUBLIC ACCOUNTS

KKH:whb



## COMMONWEALTH of VIRGINIA

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

*Department of Game and Inland Fisheries*

J. Carlton Courter, III  
*Director*

June 7, 2007

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

Dear Mr. Kucharski:

Thank you for your recommendations given to us during the exit conference on June 5, 2007, as well as taking the time to meet with us. The Board of Game and Inland Fisheries (Board) and the Department of Game and Inland Fisheries (Game) share your goals with respect to ensuring an appropriate internal control environment and financial transparency within the Agency. We concur with your recommendations. Below is an outline of the actions Game and the Board have taken, or plan to take, to address your recommendations.

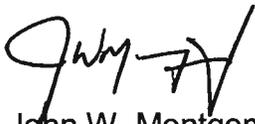
- Recommendation 1: Game has revised the Media Services policy to streamline the process while ensuring appropriate use of the Game's media services. Quarterly reports are currently provided and will continue to be provided to the Board's Finance, Audit and Compliance Committee.
- Recommendation 2: Game now has forms and procedures in place to ensure that international travel has the approval of the Secretary of Natural Resources.
- Recommendation 3: Game will retain copies of all correspondence dealing with the Small Purchase Charge Card review in monthly folders along with support for sample selections.
- Recommendation 4: Game, with the assistance of VITA, is in the process of converting from a Novel network to a Microsoft network. Passwords are currently encrypted using standard Microsoft SQL encryption algorithms. Game will ensure password expiration will comply with VITA standards during this conversion process.

Mr. Walther J. Kucharski  
June 7, 2007  
Page 2

- Recommendation 5: Game, with the assistance of VITA, will evaluate the need to encrypt data transmission and develop a plan to ensure the appropriate balance between sensitivity, cost and system capacity.

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

Sincerely,



John W. Montgomery, Jr.  
Chairman, Board of Game and  
Inland Fisheries

Sincerely,



C. T. Hill, Chairman  
Finance, Audit and Compliance  
Committee

Sincerely,



J. Carlton Courtier, III, Director

DEPARTMENT OF GAME AND INLAND FISHERIES

BOARD MEMBERS

As of April 2007

John W. Montgomery, Jr., Chairman

Ward Burton  
Sherry S. Crumley  
C. Marshall Davison  
William T. Greer, Jr  
James W. Hazel

C.T. Hill  
Randy J. Kozuch  
Richard E. Railey, Jr.  
Thomas A. Stroup  
Charles S. Yates

DIRECTOR

J. Carlton Courter, III