

Audit Report

Potomac River Fisheries Commission

Report for the Year Ended June 30, 2018



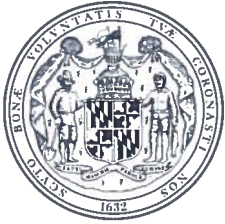
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

**Department of Legislative Services
Office of Legislative Audits**
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

September 18, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

Enclosed is a copy of the report on the annual examination of the Potomac River Fisheries Commission for the year ended June 30, 2018 as prepared by the Auditor of Public Accounts of the Commonwealth of Virginia.

The Commission receives annual grants from the State of Maryland (via the Department of Natural Resources) and the Commonwealth of Virginia. Annual examinations of the records of the Commission are conducted jointly by representatives of the Office of the Auditor of Public Accounts of the Commonwealth of Virginia and the Office of Legislative Audits. Pursuant to an understanding between the two Offices, the report is prepared and issued by the Auditor of Public Accounts.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor



POTOMAC RIVER FISHERIES COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Potomac River Fisheries Commission for the fiscal year ended June 30, 2018, found:

- proper recording and reporting of all transactions in all material respects, in the Commission's financial system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Develop Strategy to Address Going Concern Issue

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2016)

The Commission has taken several steps to address the potential going concern issue, including a detailed review of revenues and expenses and the decision to reduce funding to the retiree reserve by \$33,500 annually, beginning in fiscal year 2018, based on a recent actuarial study. This expense reduction coupled with the lack of oyster plantings for the Rotational Natural Oyster Harvest Program (Harvest) resulted in an operating profit for fiscal year 2018. However, there remains the need to use reserve funds to cover operating expenses as the Commission continues to divert operating funds received for all oyster licenses and certain commercial licenses to the oyster programs. At the end of fiscal year 2018, the deficit for restricted funds totaled \$221,000, an increase of \$76,000 over the fiscal year 2017 deficit. During fiscal year 2018, the Commission used \$168,000 in cash restricted for future projects to cover operating expenses when there was no operating cash available. As of June 30, 2018, the Commission had not reimbursed the reserve approximately \$142,000 for these funds. The Commission continues to annually set-aside funds generated from operations to support future oyster work.

The Commission decided to fund two oyster preservation projects over the past six years, in total for \$400,000, and did not consider the toll these projects would take on operating expenses. They expected the programs to be self-sustaining; however, even though the Commission is no longer funding the projects at \$50,000 per year each, the Commission also diverted certain revenues, which were previously used for operating expenses, for these projects. The diverted revenues include all oyster licenses, surcharges, inspection taxes, identification tags, and the commercial license registration fee paid by all commercial licensees. This diversion of funds is in violation of the provisions of the Virginia Potomac River Compact of 1958 (Compact) which clearly indicates that all funds received must be included in the Commission's general fund, and only the oyster bushel inspection tax can be designated for the sole use of planting oyster seed or shell.

While the Commission has recently begun to address this problem, they have not taken any extraordinary measures with respect to funding future oyster work to bring the situation under control. The Commission is slowly researching ways to increase revenues; however, they should perform more stringent reviews of their revenue streams. While they have evaluated where they can reduce expenses, they continue to fund the oyster programs, diverting all oyster and other commercial license revenues to the programs. The Commission needs to take a hard line with respect to these revenues and begin maintaining these license revenues in the operating budget. If there are excess funds at year-end, the Commission could then consider further funding of the oyster programs. In addition, the Commission needs to evaluate new projects in light of their mission and purpose, which is the responsibility for adopting the rules, regulations, and licenses for both commercial and recreational taking, catching, or attempting to catch fish, crabs, oysters, and clams from the tidal Potomac River waters. The Compact established the Commission to conserve and improve all valuable fishery resources of the river. While the preservation of the oyster population is important, concentrating all funding efforts in this area

without regard for other areas of responsibility and the need for funds for ongoing administrative operations could result in the inability to remain a viable going concern.

Prepare Bank Reconciliations Timely

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2016)

During fiscal year 2018, the Commission did not prepare bank reconciliations timely. The Commission holds six checking/savings accounts, which requires them to complete a total of 72 reconciliations. Prior to February 2018, the Assistant Executive Secretary prepared the reconciliations. As of February 2018, the procedure changed to require the Executive Secretary to prepare the bank reconciliations. The Assistant Executive Secretary and the Executive Secretary prepared reconciliations 60 to 90 days after month end for 26 reconciliations or 39 percent.

The Commission policy manual does not outline a timeframe for the completion of the reconciliations. Best practices suggest that the Commission should complete a reconciliation at least monthly to ensure that transactions are correct and no fraud has occurred. Without timely reconciliation of all bank accounts, the Commission increases the risk that unauthorized expenses will occur and that deposits will not be properly recorded. The Executive Secretary needs to set specific deadlines for completion of all monthly bank reconciliations and adhere to these deadlines.

Develop Disaster Recovery Plan and Perform Continuity of Operations Testing

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2017)

The Commission has made an initial effort to review its disaster recovery plan; however, they have not yet adopted an applicable security standard and do not have an adequate disaster recovery plan. The Commission performs daily backups of their servers; however, they have never tested the backups to ensure the backup is effective. In addition, the Commission stores backups in an unsecure and unprotected off-site location. Therefore, the backups are subject to damage, destruction, or loss.

The Commission's disaster recovery plan does not include documented manual workarounds that will allow the Commission to continue functioning during recovery times after a disaster event. As a result, the Commission does not perform continuity of operations (COOP) testing. Testing the COOP is an essential process to verify the Commission can continue performing mission essential business functions until the restoration of critical information systems. Not periodically testing the COOP to ensure that employees can efficiently execute roles and responsibilities during an emergency could potentially delay resuming business operations and may not meet the Commission's pre-determined recovery time objective expectations.

The Commission should determine which of the security standards would work best for the size of their operations and adopt that standard. Based on the adopted standard, the Commission should develop a robust recovery plan that includes documented manual workarounds and a secure off-site

storage location for backups. In addition, the Commission should begin periodic COOP testing to ensure operations can continue in the event of a disaster.

Ensure Proper Verification for Employment Eligibility

Type: Internal Control and Compliance

Repeat: No

The Commission does not properly verify employment eligibility for new employees. For two new hires during fiscal year 2018, the Commission did not properly complete the required Employment Eligibility Verification forms (I-9), nor did they verify employment eligibility in the E-Verify System. For all current Commission employees, the prior Fiscal and Human Resource Officer did not properly complete the I-9 for each new employee and did not verify employees hired after December 1, 2012, using E-Verify.

The Immigration Reform and Control Act of 1986, requires that all employees hired after November 6, 1986, must have a Form I-9 completed to verify both employment eligibility and identity. Additionally, §40.1-11.2 of the Code of Virginia requires all agencies of the Commonwealth to use the E-Verify program for each newly hired employee who is to perform work within the Commonwealth (effective December 1, 2012). Not complying with federal and state statutes could result in substantial civil and/or criminal penalties and debarment from government contracts.

The Commission should update their policy manual to include required employment practices. In addition, the Commission should ensure that the current Fiscal and Human Resource Officer properly and correctly verifies employment eligibility for all new employees.

COMMISSION HIGHLIGHTS

The Potomac River Fisheries Commission is a bi-state commission established to conserve and improve the fishery resources of the tidewater portion of the Potomac River. The Commission's leadership consists of eight Commissioners, four representing Maryland and four representing Virginia.

During the current and previous fiscal years, the Commission received revenues from the following sources.

Commission Revenues

Table 1

| | 2017 | 2018 |
|------------------------------|------------------|------------------|
| Virginia appropriations | \$148,750 | \$148,750 |
| Maryland appropriations | 140,000 | 140,000 |
| Federal and other grants | 44,975 | 104,350 |
| Sport fishing licenses | 125,267 | 113,459 |
| Commercial fishing licenses | 80,872 | 79,215 |
| Commercial crab licenses | 71,240 | 67,975 |
| Commercial oyster licenses | 90,500 | 80,085 |
| Commercial license surcharge | 25,500 | 60,450 |
| Oyster bushel tax | 21,733 | 13,681 |
| Interest and miscellaneous | 41,752 | 28,765 |
| Total revenue | \$790,589 | \$836,730 |

Source: Commission's financial system

The Commission's revenues increased by six percent for fiscal year 2018 due primarily to an increase in grant funds and an increase in oyster license surcharges for the Reserve program. The Commission received a private two-year grant totaling \$100,000 per year to be used exclusively for oyster bed construction and seed planting and implemented a new \$750 oyster license surcharge. All other license revenues decreased due to the closing of oyster hand scraping harvest areas and a decrease in the sale of pleasure boat licenses.

The Commission had the following expenses during the current and previous fiscal years:

Commission Expenses

Table 2

| | 2017 | 2018 |
|----------------------------|------------------|------------------|
| Personnel services | \$405,045 | \$405,401 |
| Development and repletion | 209,355 | 124,563 |
| Federal and other grant | 36,960 | 102,373 |
| Contractual services | 81,272 | 83,140 |
| Materials and supplies | 56,473 | 54,975 |
| Insurance | 7,867 | 8,033 |
| Fixed assets | 23,553 | - |
| Total Operating Expenses | 820,525 | 778,485 |
| Reserve Fund Deposits for: | | |
| Retiree health care | 53,500 | 20,000 |
| Total Expenses | \$874,025 | \$798,485 |

Source: Commission's financial system

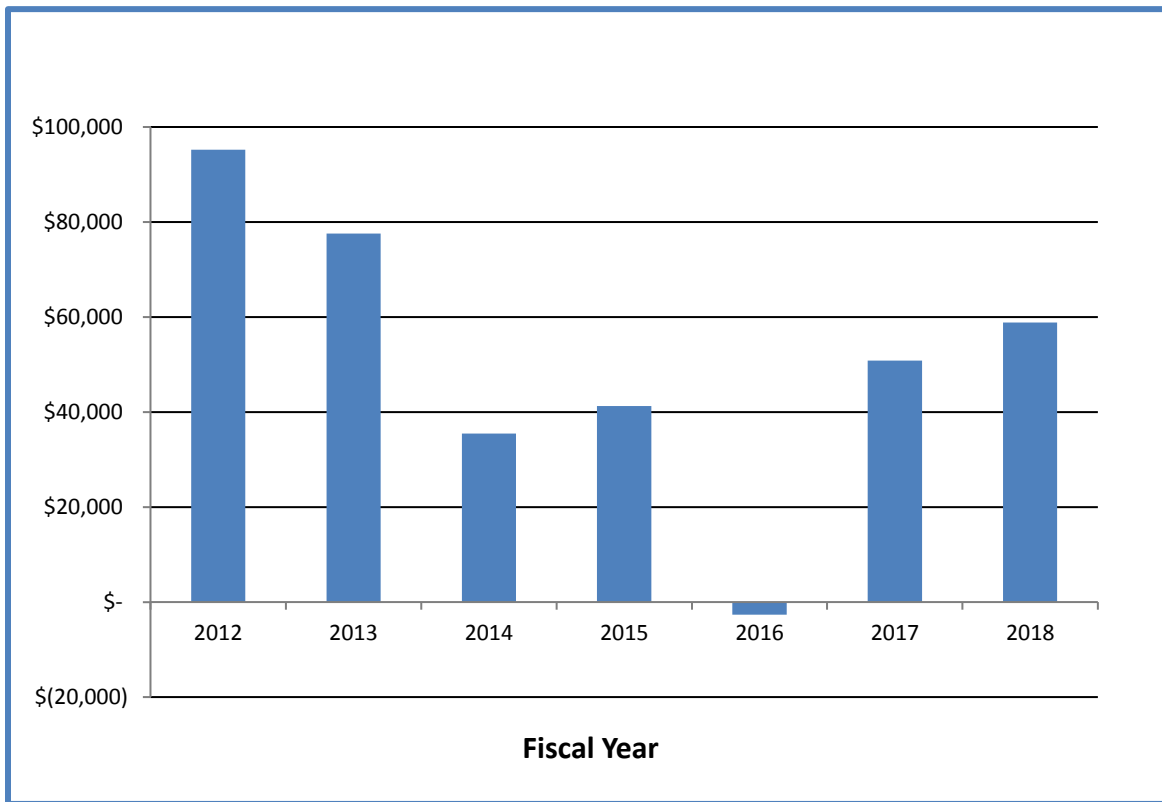
Total expenses decreased by nine percent from fiscal year 2017. This is attributable to a 41 percent decrease in oyster seeding expenses due to weather conditions and a 63 percent reduction in funding of the retiree healthcare trust based on the most recent actuarial study. While overall costs and decreasing revenues continue to be a concern for the Commission, they are actively seeking ways to continue to increase profits.

The Commission closed fiscal year 2018 with an operating profit of \$43,244, including funding of the retiree healthcare trust. In addition to reducing the retiree healthcare trust funding by \$33,500, the drastic swing from the operating loss of \$84,000 in fiscal year 2017 is attributable to no oyster plantings for the Harvest program, due to adverse weather conditions, and the implementation of a surcharge in the Oyster Management Reserve Program (Reserve) to fully cover planting expenses. The Commission has reserved approximately \$320,000 for future plantings in the Harvest program and typically spends almost \$100,000 annually for oyster planting. Had the program planting occurred during fiscal year 2018, the result would have been a potential loss similar to the loss incurred in 2017.

The Commission is retaining less cash overall each year. While the Commission ended the year with a positive balance of \$58,864 in the operating fund as shown in Chart 1, this was the result of using oyster programs cash reserves. The Commission continues in a deficit situation, because they continue to use the Harvest program cash reserves, authorized by the Commission in 2013, to pay operating expenses. For further discussion on this issue, see the finding entitled "Develop Strategy to Address Going Concern Issue" in the section "Audit Findings and Recommendations."

Operating Cash Balances

Chart 1

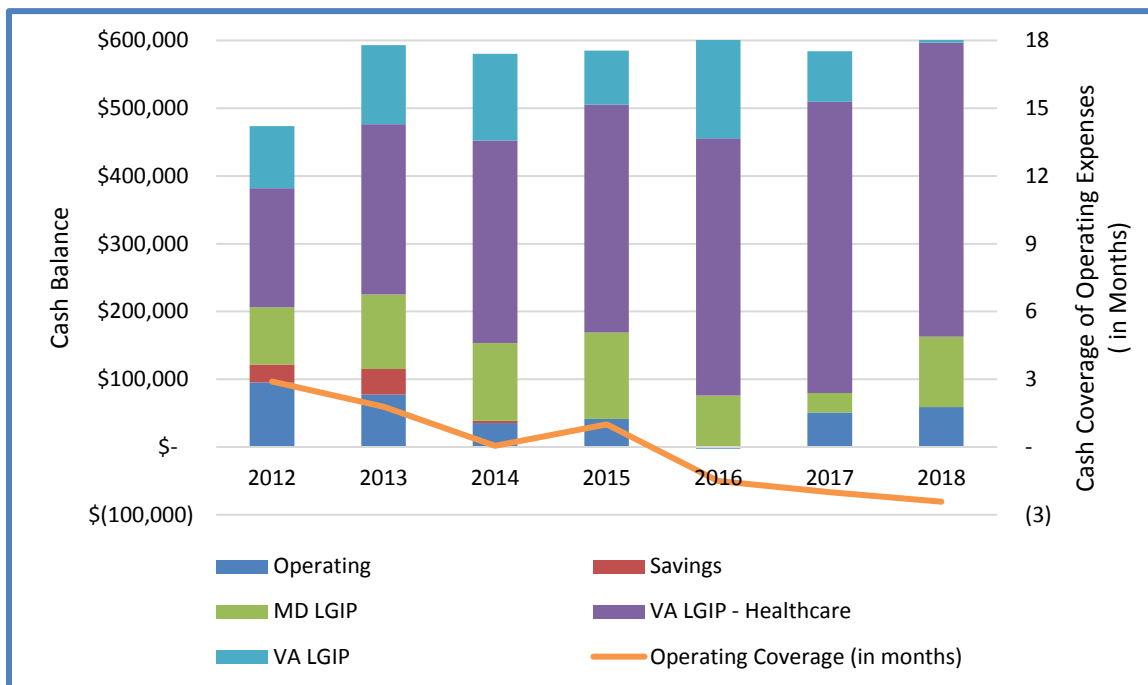


Source: Commission's financial system

The Commission closed fiscal year 2018 with an overall cash balance of \$630,555, which was an eight percent increase (\$46,366) over fiscal year 2017 levels. The increase is due to the Commission paying approximately \$57,000 of 2017 expenses in 2018 for the Reserve program. In addition, the Commission did not have any expenses for plantings in the Harvest program. The cash balance includes \$137,455 in the Virginia and Maryland investment pool accounts to fund future oyster work and \$434,236 in a separate Virginia investment pool account for retiree health care reserves. The retiree healthcare account is managed by a trust and legally cannot be used to fund operations. The Commission earmarked the other two accounts for the Reserve and Harvest programs, and the Commission should not use the reserves to supplement operating cash. As shown in Chart 2, as of June 30, 2018, the Commission's operating cash coverage continues to decrease due to the Commission's contributions to the oyster programs and deflection of other revenues to these programs.

Cash Balances by Account

Chart 2



Source: Commission's financial system

Although the operating account cash balance at year-end was \$58,864, the funds are only there because the Commission borrowed cash from the restricted funds to pay operating costs. The operating fund owes the restricted funds \$142,000 (see Table 3), essentially leaving a negative cash balance in the operating fund.

Amount Due to Harvest Program Reserve from Operating Funds

Table 3

| | |
|---|-----------|
| Beginning balance due to Harvest Program Reserve as of July 1, 2017 | \$ 80,000 |
| Current year funds borrowed from reserve: | |
| Loan date: September 19, 2017 | 143,000 |
| Loan date: June 22, 2018 | 25,000 |
| Total funds borrowed | 168,000 |
| Loan repayment: February 20, 2018 | (106,000) |
| Balance due to Harvest Program Reserve as of June 30, 2018 | \$142,000 |

Source: Commission's financial system



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 4, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Potomac River Fisheries Commission** for the year ended June 30, 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commission's financial system, review the adequacy of the Commission's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from the prior year report.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

| | |
|--------------------|-----------------------------|
| Capital assets | Cash receipting |
| Operating expenses | License revenues |
| Payroll expenses | Grant revenues and expenses |
| Appropriations | |

We performed audit tests to determine whether the Commission’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission’s operations. We performed analytical procedures, including budgetary and trend analyses. We confirmed bank balances with outside parties. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commission’s financial system. The financial information presented in this report came directly from the Commission’s financial system.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management’s attention and corrective action. These matters are described in the section entitled “Audit Findings and Recommendations.”

The Commission has not taken adequate corrective action with respect to all audit findings reported in the prior year and; therefore, those findings are repeated in the section entitled “Audit Findings and Recommendations.”

Exit Conference and Report Distribution

We discussed this report with management on September 6, 2018. Management’s response to the findings identified in our audit is included in the section titled “Commission Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

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MARYLAND - VIRGINIA

"Potomac River Compact of 1958"

Potomac River Fisheries Commission

P.O. Box 9

Colonial Beach, Virginia 22443

www.prfc.us

**OFFICERS:**

MARTIN L. GARY
Executive Secretary

MICHAEL C. MAYO, ESQ.
Legal Officer

TELEPHONE:
(804) 224-7148
(800) 266-3904

FAX:
(804) 224-2712

E-MAIL:
contactprfc@gmail.com

September 10, 2018

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

Dear Ms. Mavredes,

The Executive Secretary of the Potomac River Fisheries Commission (PRFC) has reviewed the findings of the final report associated with the audit of the PRFC for the 2017-2018 fiscal year. PRFC acknowledges the findings of the report. The Executive Secretary has been, and will continue to discuss the findings with its Commissioners, advisory committees and stakeholders as they relate to the comprehensive fiscal condition of the PRFC. At the PRFC's most recent meeting in June, the Commission acted to constrain expenditures, which should be reflected in the most recent audit report. At the Commission's autumn meeting, options to enhance revenues will be addressed and hopefully adopted. Actions continue to be taken to address internal control issues that were identified, and we expect significant progress or resolution of those issues by the end of this calendar year.

We thank the Bi State Audit team for working with our staff to identify and address these issues. We are confident that we will be able to address all identified issues.

Very Respectfully,

Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

POTOMAC RIVER FISHERIES COMMISSION

as of June 30, 2018

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Steven G. Bowman, Chairman

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Ida C. Hall

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