

Audit Report

Potomac River Fisheries Commission

Report for the Year Ended June 30, 2017



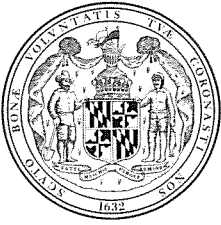
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

June 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, 2017 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, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Potomac River Fisheries Commission for the fiscal year ended June 30, 2017, found:

- instances of incorrect recording and reporting of transactions in the Commission's financial system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- one instance 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 continues to have a potential going concern issue, as it appears that they do not have the resources to continue operating without using their reserve funds. The Commission is not aggressively monitoring operating cash balances or developing strategies to increase revenues or decrease expenses. During fiscal year 2017, the Commission used \$80,000 in cash restricted for future projects to cover operating expenses when there was no operating cash available. As of June 30, 2017, the Commission had not reimbursed the reserve for these funds. At the end of fiscal year 2017, the Commission's deficit for restricted funds totaled approximately \$145,000, an increase of \$55,000 over the fiscal year 2016 deficit. The Commission continues to annually set-aside funds generated from operations to support future oyster work. The Commission's operating loss of \$84,000 in fiscal year 2017, demonstrates the Commission's inability to operate with a positive cash balance.

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 has also diverted certain revenues, which were previously used for operating expenses, for these projects. The diverted revenues include all oyster licenses, surcharges, inspection taxes, and identification tags.

While the Commission has recently begun to address this problem, they have not taken any extraordinary measures 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 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 Virginia Potomac River Compact of 1958 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.

Improve Financial Recording

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2016)

The Commission still does not have accounting personnel with adequate knowledge of accounting standards to properly record and process the Commissions' uncommon financial transactions. This has resulted in various inaccuracies, as described below, in the Commissions financial records.

During fiscal year 2017, the Fiscal Officer did not properly capitalize expenses for capital assets. The Commission replaced one HVAC unit totaling \$8,259, which the Fiscal Officer expensed to "Building Maintenance" rather than capitalizing the unit as "Building Improvements." The Commission's capitalization policy requires capitalization of all additions, renovations, and repairs to capital assets that increase the economic benefits of the assets. In addition, the policy requires capitalization for assets that have an expected useful life of greater than one year and a value or cost of \$5,000 or more at the date of acquisition.

The Fiscal Officer did not prepare the year-end adjusting entry to record the expense of the annual contribution to the Retiree Healthcare investment account resulting in an understatement of expenses of \$53,500. In addition, the Fiscal Officer did not adjust the liability account for interest earned resulting in an understatement of \$2,813. These errors resulted in a total understatement of the liability account of \$56,313.

As noted in our prior year management recommendation, in completing the annual reimbursement from the Healthcare investment account, the Fiscal Officer incorrectly calculated the annual expense amount resulting in a cumulative under-reimbursement of operating funds of \$4,044. However, the Fiscal Officer did not reimburse the operating account for this amount as recommended in last year's report.

Finally, as noted in the prior year, a review of the Oyster Management Reserve and the Rotational Oyster Harvest Program revealed that the Commission was not properly accounting for these programs. For fiscal year 2017, while the Commission now accounts for these programs within their operating expenses, the Fiscal Officer did not adjust the liability account related to this future oyster work resulting in an understatement to the account of \$20,268.

Overstatement of liabilities and expenses hinders the ability of the Commission to assess its financial position and make sound financial decisions. The prior Fiscal Officer retired in December 2017, and the Commission promoted a current employee to the position. The Commission authorized and the new Fiscal Officer has taken training in the accounting system and classes in accounting at the local community college. The Commission should continue to encourage the current Fiscal Officer to seize the opportunity to enhance her knowledge. We also recommended that the Commission should ensure that the Executive Secretary has adequate knowledge of accounting procedures affording him the capability to determine that transactions recorded in the financial system are proper and correct. Neither the Commission or the Executive Secretary have taken steps to ensure the Executive Secretary's accounting knowledge is enhanced. We continue to recommend that the Executive Secretary, at a minimum, take a basic accounting course to enable him to understand accounting principles.

Prepare Bank Reconciliations Timely

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2016)

During fiscal year 2017, the Commission did not prepare bank reconciliations timely. The Commission holds five checking/savings accounts, which requires them to complete a total of 60 reconciliations. The Assistant Executive Secretary prepared reconciliations sixty to ninety days after month end for 34 reconciliations or 57 percent. Due to these issues, we expanded our review of reconciliations into fiscal year 2018. Between July 2017 and March 2018, the Assistant Executive Secretary prepared bank reconciliations for all accounts between 65 and 90 days after each month end for 37 percent of the reconciliations.

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 expenditures 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 monitor to ensure that the Assistant Executive Secretary prepares the reconciliations timely.

Develop Disaster Recovery Plan and Perform Continuity of Operations Testing

Type: Internal Control and Compliance

Repeat: No

The Commission has not adopted an applicable security standard and does 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.

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

| | 2016 | 2017 |
|------------------------------|------------------|------------------|
| Virginia appropriations | \$148,750 | \$148,750 |
| Maryland appropriations | 140,000 | 140,000 |
| Federal and other grants | 63,754 | 44,975 |
| Sport fishing licenses | 143,678 | 125,267 |
| Commercial fishing licenses | 76,880 | 80,872 |
| Commercial crab licenses | 68,545 | 71,240 |
| Commercial oyster licenses | 88,262 | 90,500 |
| Commercial license surcharge | 38,250 | 25,500 |
| Oyster bushel tax | 11,698 | 21,733 |
| Interest and miscellaneous | 35,868 | 41,752 |
| Total revenue | \$815,685 | \$790,589 |

Source: Commission's financial system

The Commission's revenues decreased by three percent for fiscal year 2017 due primarily to decreases in the sales of oyster licenses and non-commercial fishing licenses. These 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

| | 2016 | 2017 |
|--|------------------|------------------|
| Personnel services | \$400,186 | \$405,045 |
| Development and repletion | 126,171 | 209,355 |
| Conservation and management of coastal resources | 62,427 | 36,960 |
| Contractual services | 93,844 | 81,272 |
| Materials and supplies | 59,930 | 56,473 |
| Insurance | 7,176 | 7,867 |
| Fixed assets | 1,033 | 23,553 |
| Total operating expenses | 750,767 | 820,525 |
| Reserve Fund deposits for: | | |
| Retiree health care | 53,500 | 53,500 |
| | | |
| Total expenses | \$804,267 | \$874,025 |

Source: Commission's financial system

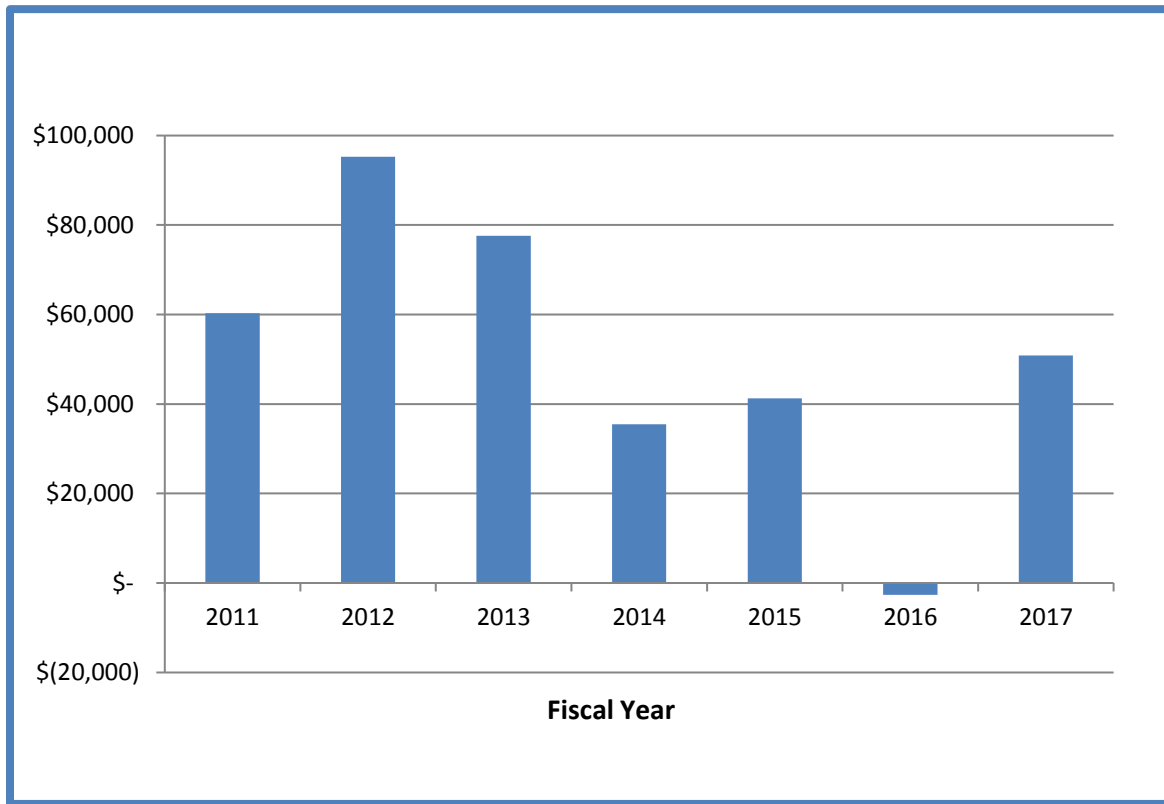
Total expenses increased by eight percent from fiscal year 2016. This is mainly attributable to the continued payment of oyster seeding expenses, which included \$62,000 of fiscal year 2016 expenses that were not paid until fiscal year 2017. These increasing costs coupled with decreasing revenues continues to be a concern for the Commission in the future.

The Commission closed fiscal year 2017 with an operating loss of \$83,436, including funding of the retiree healthcare trust.

The Commission is retaining less cash overall each year. While the Commission ended the year with a positive balance in the operating fund as shown in Chart 1 below, this was the result of use of the oyster programs cash reserves. The funds reserved for two oyster projects and authorized by the Commission in 2012 and 2013 continue in a deficit situation, as the Commission continues to use the cash reserves 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

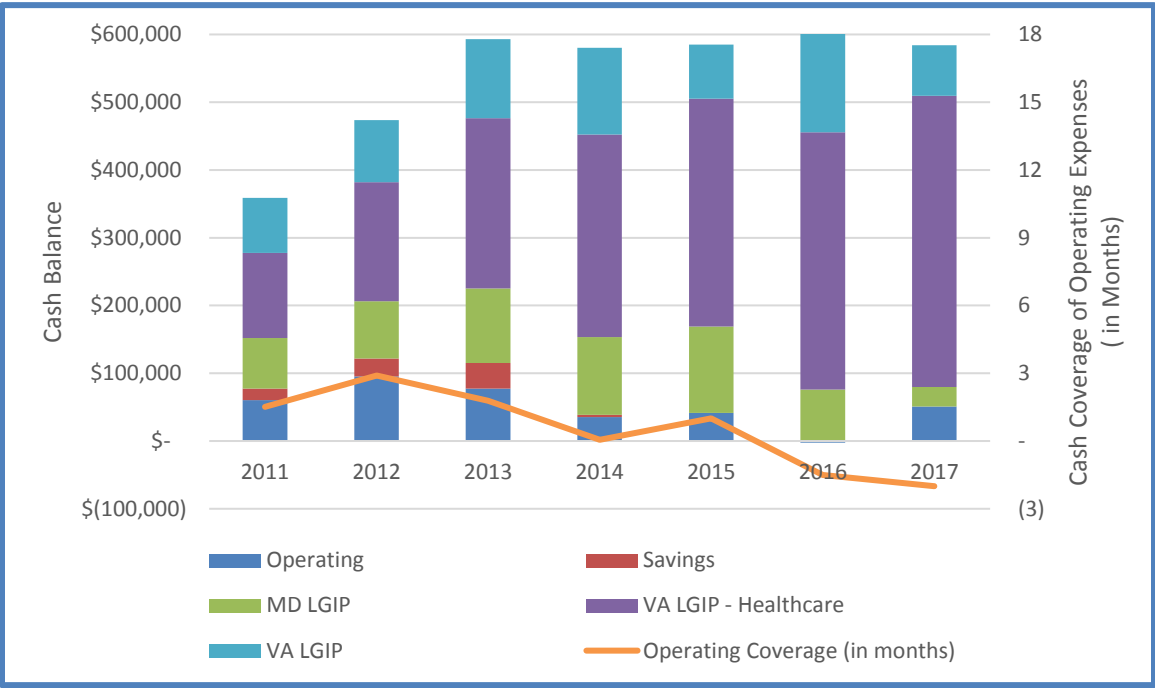


Source: Commission's financial system

The Commission closed fiscal year 2017 with an overall cash balance of \$584,189, which was a six percent decrease (\$38,122) over fiscal year 2016 levels. The decrease is due to the timing of expenses at year-end for the Oyster Management Reserve program and the Rotational Oyster Harvest Program in the Virginia and Maryland investment pool accounts, respectively. The Commission paid approximately \$62,000 in expenses related to fiscal year 2016 in fiscal year 2017. The cash balance includes \$103,383 in the Virginia and Maryland investment pool accounts to fund future oyster work and \$429,948 in a separate Virginia investment pool account for retiree health care reserves as of June 30, 2017. 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 Oyster Management Reserve and Rotational Natural Oyster Harvest Program projects, and the Commission should not use the reserves to supplement operating cash. The Commission has traditionally maintained sufficient operating cash to cover two to three months of expenses. However, as shown in Chart 2 on the following page, as of June 30, 2017, 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. Although the operating account cash balance at year-end was \$50,859, 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 \$144,899, essentially leaving a negative cash balance in the operating fund.

Cash Balances by Account

Chart 2



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

May 30, 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, 2017. 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 | Federal 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, except as noted in the finding titled "Improve Financial Recording" in the section entitled "Audit Findings and Recommendations." 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 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 June 4, 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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"Potomac River Compact of 1958"

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June 5, 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 of the 2016-2017 fiscal year. PRFC acknowledges the findings of the report. The Executive Secretary has been in discussions with our commissioners, advisory committees and constituent stakeholders regarding the overarching fiscal disposition of the agency, and the need and potential methodologies to address it. I am confident action will occur in the coming several months. Action is being taken to address other findings related to internal control issues, some of which have recurred partly due to a major reorganization of our staff, and associated new responsibilities. We are also confident those findings are being addressed.

The efforts of the Bi State Audit team have been extremely helpful to us in identifying these issues and allowing us to develop remediation strategies. We thank them for their efforts.

Very Respectfully,

Martin L. Gary
Executive Secretary
Potomac River Fisheries Commission

POTOMAC RIVER FISHERIES COMMISSION

as of June 30, 2017

COMMISSIONERS

Virginia

John M. R. Bull, Vice-Chairman

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