



STATE OF NORTH CAROLINA

NORTH CAROLINA WILDLIFE RESOURCES COMMISSION

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA WILDLIFE RESOURCES COMMISSION

FISCAL CONTROL AUDIT



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

July 10, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Commissioners for the North Carolina Wildlife Resources Commission
Gordon Myers, Executive Director, North Carolina Wildlife Resources Commission

This report presents the results of our fiscal control audit at the North Carolina Wildlife Resources Commission. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS	1
AUDIT FINDINGS AND RESPONSES	3
ORDERING INFORMATION	7

[This Page Left Blank Intentionally]

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the North Carolina Wildlife Resources Commission. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

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.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Our audit scope covered the period July 1, 2008 through December 31, 2008 and included internal controls related to the following accounts and control objectives:

Law Enforcement Officers' Salary – During the period audited, Wildlife Resources Commission expended \$5.6 million in law enforcement officers' salaries. We examined internal controls designed to ensure that the salaries were paid correctly and accounted for properly. We also examined internal controls designed to ensure compliance with applicable state and federal requirements.

Wildlife Resources Endowment Fund – *North Carolina General Statute* 143-250 established the Wildlife Resources Endowment Fund as a special trust derived from a contractual relationship between the State and members of the public. The Endowment fund is comprised of the proceeds from the sales of lifetime fishing, hunting, and combination licenses and the related investment income. State requirements restrict the expenditures that can be made from the receipts from the fund. During the period audited, investment earnings in the Endowment fund were approximately \$2.25 million, while total sales of lifetime licenses were \$1.4 million. We examined internal controls designed to ensure compliance with statutory requirements.

State Grants – The Commission receives state grant funds from the Clean Water Management Trust Fund and the Natural Heritage Trust Fund. State grant funds were used to acquire lands to be held in the public trust. Receipts of these funds are subject to certain contractual compliance requirements. The Commission expended \$22 million to acquire lands to be held in public trust during our audit period. We examined internal controls designed to ensure compliance with the state grants contract terms.

Agent Commissions – *North Carolina General Statute* 113-270 establishes the amounts of commissions to be earned by agents under contract with the Commission for the sale of fishing, hunting, and combination licenses; and private vessel registration fees. During the period audited, agents' commissions paid for sporting licenses and vessel registrations exceeded \$728,000. We examined internal controls designed to ensure compliance with the law and contracts for agent commissions paid.

Timber Sales – Sales of timber from public lands are subject to *North Carolina General Statutes* 113-8, 113-35 and 142-83. During our audit period, the timber sales from lands the Commission held in public trust were in excess of \$2.3 million. We examined internal controls designed to ensure that sales proceeds are accounted for properly and to ensure compliance with relevant state laws.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

1. DEFICIENCIES IN PERSONNEL AND PAYROLL PROCESSES

The Commission has not established adequate internal control to ensure its personnel and payroll processes are administered effectively. As a result, the Commission has not complied with state personnel policies and there is an increased risk that there will be errors in the compensation paid to employees and in the related accounts on the financial statements.

Several tests were performed for law enforcement officer salaries account for the period July 1, 2008 through December 31, 2008, which revealed the following deficiencies:

Personnel Actions

For a sample of 43 out of 216 law enforcement officers, we noted that adequate documentation was not on file for any of the sample items to support the most recent legislative salary increase and therefore the officers' actual rates of pay. This was brought to the attention of management during our fieldwork and was corrected prior to the end of our fieldwork.

Payroll Review

In our examination of the payroll processing procedures, there was no evidence to support the Commission's review of preliminary payroll reports prior to the final processing of payroll cycles.

Time Records and Pay

We identified payment errors based on the supporting documentation maintained by the payroll section including:

- Errors totaling \$25,450 (sample population of \$1 million) were noted where the hours listed on the pay stub did not agree to the supporting timesheets for either the current or prior month.
- Errors totaling \$7,308 (sample population of \$1 million) were noted where payments for holiday premium or compensatory time occurred; however, there were no hours associated with these pay items on the pay stub. In addition, there were adjustments identified on the pay stub that were not explained.
- Errors totaling \$2,041 (sample population of \$11,700) were noted where payments were made to law enforcement officers for overtime worked when compensatory leave time should have been accrued in accordance with the policies of the Commission. Officers have six months to take any compensatory time earned as leave prior to the amounts being paid as compensation.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Employee Separations

We examined the separation process for the four employees who were separated during our audit period. Our examination revealed that the payroll system continued to show available leave balances for each employee even though they were properly separated and a final payout for remaining leave balances had occurred. If not corrected, this would result in an overstatement of the Commission's accrued leave liability at year-end.

Recommendation: The Commission should improve its internal control over the personnel and payroll processes to address the deficiencies noted above.

Agency Response:

Personnel Actions: The Commission concurs with the finding. A process has been established to document future salary adjustments in the personnel files.

Payroll Review: The Commission concurs with the finding. Payroll is now being reviewed using the Preliminary Payroll Journals, and a manual process has been established outside BEACON where personnel actions affecting payroll are checked for accuracy against the Preliminary Payroll Journals.

Time Records and Pay: For the first two bullets, the Commission will do further research with BEACON. For the third bullet, the Commission concurs with the finding. The Beacon Support Team has established a "work around" which prevents the actual payment for the time that should have compensatory leave. The Beacon Support Team is continuing to address this issue.

Employee Separations: The Commission concurs with the finding and the issue is being referred to the Beacon Support Team.

2. NONCOMPLIANCE WITH STATE REQUIREMENTS GOVERNING TIMBER SALES

The Commission has not complied with certain state requirements governing the sale of timber. These requirements were designed to protect against fraud or abuse and ensure a fair sales price.

Our audit focused on deposits from timber sales that occurred from July 1, 2008 through December 31, 2008, totaling \$2.2 million. We judgmentally selected the four largest transactions, which totaled \$1.2 million, to test. Based on our examination, we determined the following:

- The Commission does not have any written rules in place regarding the sale of timber, as required by *North Carolina General Statute* 113-35(a), which states: "timber and other products of State forests may be sold, cut, and removed under rules of the Department." The Commission is considered a special agency under the North Carolina Department of Environment and Natural Resources. Staff members at the Commission and the Department were unable to provide departmental rules or policies that addressed the sale of timber.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- The Commission does not process its timber sales through the State Surplus Property Agency within the North Carolina Department of Administration. North Carolina Administrative Code 43A.0318 provides that “timber, pine straw, and other forest commodities owned by state agencies are disposed of by the State Surplus Property Agency on a competitive bid basis.” Commission staff indicated that the Commission chose to process its own timber sales to more closely monitor the sales and maximize the revenue being generated since the revenue has been pledged to repay loans related to the purchases of land. A request was made of the Department of Administration to be exempted from using the State Surplus Property Agency for timber sales; however, no response was received, and thus, no exemption has been granted.

Recommendation: The Commission should develop appropriate rules and policies that address the sale of timber. Those rules should be structured to ensure compliance with applicable general statutes and provisions of the administrative code that address the removal and processing for timber sales.

Agency Response: For the first bullet, the Commission concurs with the finding. A process is in place regarding timber sales, and the Commission is establishing a written policy and procedure to address the sale of timber. For the second bullet, the Commission and its General Counsel will work with the Department of Administration to address this process.

3. NONCOMPLIANCE WITH CLEAN WATER MANAGEMENT TRUST FUND REPORTING REQUIREMENTS

The Commission failed to file quarterly progress reports with the Clean Water Management Trust Fund related to grant funds used for land acquisition.

The Commission obtained a grant from the Clean Water Management Trust Fund to acquire real property that provided environment, educational, and/or recreation benefits to the State of North Carolina. Grant agreement language required the Commission to submit a detailed written narrative progress report every three months from the effective date of the grant award. The report was to be submitted whether or not grant funds were being requested. We noted that the Commission was submitting the reports only when a request was made for funding.

Recommendation: We recommend that the Commission prepare the appropriate progress reports in accordance with the requirements specified by the Clean Water Management Trust Fund grant agreement.

Agency Response: The Commission concurs with the finding and will begin to file written progress reports as required.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

4. DEFICIENCIES IN ACCESS PROCEDURES FOR THE AUTOMATED LICENSE AND VESSEL INFORMATION NETWORK SYSTEM

The Commission does not have a formal process for controlling access to the Automated License and Vessel Information Network (ALVIN) system. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of access upon severance or leaving employment.

The ALVIN system is an Internet-based license and vessel registration system that allows agents to enter customer information for the purchase of hunting/fishing licenses, registering of vessels, or requesting other transactional information. Commission staff told us that IT Network Support granted or terminated access to the system based on e-mailed requests and that users were only granted access to the screens necessary to perform their assigned tasks. However, the Commission was not able to provide us with e-mail requests that matched to the provided listing of users with access rights.

We also determined that the Commission is not periodically reviewing user access rights to determine their propriety.

Recommendation: The Commission should enhance its procedures for documenting security access privileges for the ALVIN system. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Commission concurs with the finding and is establishing a policy and procedure for requesting and maintaining security. The policy and procedure will be designed to prevent access to the system by unauthorized users, to prevent users with valid access from unauthorized data, and will include periodic reviews of security to ensure that privileges are appropriate and are terminated when appropriate.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647