



STATE OF NORTH CAROLINA

NORTH CAROLINA WILDLIFE RESOURCES COMMISSION

FINANCIAL RELATED AUDIT

MAY 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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**COMMISSIONERS FOR THE NORTH CAROLINA WILDLIFE
RESOURCES COMMISSION**

DAVID HOYLE, JR., CHAIR

ADMINISTRATIVE OFFICER

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AUDITOR'S TRANSMITTAL

May 30, 2012

The Honorable Beverly Eaves 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 financial related 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 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

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BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY

BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related 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.

GENERAL OBJECTIVES

The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters.

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. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

METHODOLOGY

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 provide evidence about our audit objectives. 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 result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, 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 audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

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SCOPE, SPECIFIC OBJECTIVES, AND RESULTS

SCOPE AND SPECIFIC OBJECTIVES

Our audit scope covered the period July 1, 2011 through December 31, 2011 and included selected internal controls in the following organizational units:

Administrative Services Division

This division provides administrative and financial support for programs of the Wildlife Resources Commission. Some of the services it performs include purchasing, monitoring service contracts with vendors, and processing the Commission's payroll.

Division of Wildlife Management

This division monitors the status of wildlife populations and develops and administers programs for wildlife management and preservation. The division also administers the sale of timber and collects moneys from such sales. Due to the nature of their work, employees in this division utilize a large number of motorized vehicles to perform their daily duties.

Division of Enforcement

This division enforces gaming, fishing, and boating rules and regulations established by state law and the Wildlife Resources Commission. Wildlife law enforcement officers enforce these rules and regulations to protect the resources of the state and ensure the safety of citizens. Due to the nature of their work, the enforcement officers are assigned special motorized vehicles to perform their daily duties.

Human Resources Section

This section ensures that the Commission properly applies state personnel policies and supports the development of staff through consultation and training. They are also responsible for the set-up and maintenance of employee positions in the payroll system.

During our audit, we considered internal control in the organizational units listed above related to the following accounts and control objectives:

Timber Sales – During our audit period, timber sales from state lands were in excess of \$1.1 million. The proceeds from these sales are used to repay debt on the land. We examined the Commission's procedures to ensure revenues from these sales are maximized and receipts are deposited in accordance with relevant state law and policy.

Law Enforcement Officers' Salary – During our audit period, the Commission reported approximately \$5 million in law enforcement officers' salaries. The state payroll policies include complex rules related to the work schedules and overtime compensation of law enforcement officers. Thus, the set-up of these positions in the payroll system and the reporting of actual hours worked is critical to ensuring proper pay. We examined the

SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONCLUDED)

Commission's procedures to set up officers in the payroll system and to record the actual hours worked. We also examined procedures to ensure that proper user access is established within the payroll system.

Monitoring of Service Contracts – The Commission contracts with over 1,000 vendors throughout the state to offer a variety of services to the public, including selling boat registrations and hunting and fishing licenses. The contract between the Commission and the vendor establishes requirements that the vendors must meet to sell the licenses and registrations. During our audit period the Commission received over \$13.1 million in fees and licenses revenue and paid over \$648,000 in commissions to vendors. We examined the Commission's procedures for monitoring vendors' compliance with contract-related requirements.

Replacement of Vehicles – During our audit period, the Commission spent approximately \$1.8 million to either purchase new vehicles or lease vehicles. We examined the Commission's procedures for determining when a vehicle needs to be replaced, when to lease versus buy a new vehicle, and when a purchase is made, what is done to ensure the best purchase price.

Monitoring Employees' Use of Motorized Vehicles – The nature of the Commission's operations requires them to maintain a large number of motorized vehicles. As of December 31, 2011, the Commission reported over \$12.9 million in automobiles, boats, ATVs, and airplanes. We examined the Commission's procedures to prevent or detect the personal use of state-owned vehicles by employees.

Transaction Fees Assessed on Coastal Recreational Fishing Licenses – The Commission has an agreement with the Division of Marine Fisheries to administer the sale of the Coastal Recreational Fishing Licenses. As allowed by their agreement, the Commission assesses a transaction fee on each license sold in order to cover their costs. During our audit period the Commission reported approximately \$513,400 in revenues for administering these sales. We examined the Commission's procedures to ensure the assessed transaction fee and related costs are reasonable.

RESULTS

The results of our audit disclosed deficiencies in internal control and 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. RECEIPTS FROM TIMBER SALES NOT DEPOSITED TIMELY

The North Carolina Wildlife Resources Commission did not deposit checks received from timber sales daily, as required by *North Carolina General Statute 147-77* and the state cash management plan. Not depositing receipts as soon as possible increases the likelihood of loss or misappropriation and reduces investment earnings. In this case, both the State's general fund and the Commission earn interest on the deposits.

The Commission's current procedures do not ensure that monies received from timber sales are deposited daily. Under current procedures, field employees collect timber sales' monies and mail the checks to the Commission's main Raleigh office for deposit. The Commission's internal policy only requires that checks be deposited daily upon receipt by the main Raleigh office.

We examined 21 timber sales' deposits valued at approximately \$519,000 and none were deposited within a day of receipt. Based on the documentation that was available, we noted the following:

- The time from when the field employee received the money to the date funds were deposited ranged from 5 to 25 days.
- The time from when the main Raleigh office received the money to the date funds were deposited ranged from 2 to 20 days.

Recommendation: The Commission should establish procedures that ensure all receipts are deposited daily as required by state law and policy. Management should educate the staff about the requirements and should strengthen internal controls to ensure compliance.

Commission Response: The Commission concurs with the finding, and the Division of Wildlife Management has established procedures that ensure all receipts are deposited daily as required by state law and policy. For areas where it is not feasible for the receipts to be deposited as required by state law and policy, the Commission is requesting an exemption from the Office of the State Treasurer.

2. STATE VEHICLE USE NOT SUFFICIENTLY MONITORED

The North Carolina Wildlife Resources Commission does not sufficiently monitor employees' use of state vehicles. Insufficient monitoring increases the likelihood of vehicle misuse going undetected.

The Commission does not have a policy requiring that employee-reported mileage be reconciled to the assigned vehicles' actual mileage. This type of reconciliation would detect possible improper vehicle use not evident from an employee's report.

We examined vehicle usage in two of the Commissions divisions, the Division of Enforcement and the Division of Wildlife Management. These two divisions are

AUDIT FINDINGS AND RESPONSES (CONTINUED)

assigned approximately 75% of the Commission's vehicles. We found that supervisors in both divisions approve mileage reported by employees based on the hours worked and duties performed by the employee. However, only the Division of Enforcement periodically reconciles the reported mileage to the vehicle's actual mileage.

Recommendation: The Commission should establish clear policies and procedures to ensure all divisions consistently monitor the use of state vehicles. Procedures should include a periodic, independent reconciliation between approved mileage reported by employees and the vehicle's actual mileage.

Commission Response: The Commission concurs with the finding. Policies and procedures have been established to appropriately monitor the use of state vehicles. The procedures include a periodic, independent reconciliation between approved mileage and actual mileage.

3. COMMISSION DOES NOT ENSURE VENDOR COMPLIANCE WITH SERVICE CONTRACT REQUIREMENTS

The North Carolina Wildlife Resources Commission does not ensure that outside vendors who sell boat registrations and hunting and fishing licenses comply with certain requirements. The Commission contracts with vendors throughout the State to offer a variety of services to the public, which include selling boat registrations and hunting and fishing licenses. The service contract, as well as the application to become a vendor, establishes requirements the vendors must meet to sell the registrations and licenses. We examined six of the requirements and noted errors in three, as discussed below.

Submission of Required Documentation

The Commission did not ensure that required supporting documents for registrations and licenses were submitted in a timely manner. Vendors are required to submit documentation such as boat purchase documents (e.g. bill of sale, title, etc.) and birth certificates (lifetime license fees are age-dependent) to the Commission daily, and these documents must be received before permanent registrations and licenses are issued (the vendor provides 60-day temporary boat registrations to customers).

We examined Commission exception reports that listed occurrences of delinquent documentation and noted the following:

- For registrations, there was evidence that letters were sent to vendors when required documentation was not received; however, Commission policy requires further follow-up if the documentation has still not been received within 60 days of the initial transaction date. We were unable to verify that additional follow-up procedures were performed within the 60 days for any of the transactions we examined.
- For licenses, the Commission was unable to provide evidence they had followed up with the vendor when the required documentation was not received.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Furthermore, the Commission has not established clear procedures to track those vendors that fail to comply with the documentation requirement. Without clear procedures in place to help identify noncompliance, the Commission cannot adequately follow up.

Vendor Principal Training

The Commission has not maintained documentation demonstrating that vendors attended required training. Prior to obtaining access to the sales system (ALVIN) and receiving the equipment used for issuing licenses and registrations, vendors are supposed to attend training. According to Commission staff, attendance sheets are prepared at each training session, but attendance sheets are not kept.

Although we could not substantiate that vendors actually attended the required training, we were able to determine that the vendors in our test were granted access to the sales system and sent equipment after their scheduled training date. If the Commission were to keep and use the training attendance sheets, it could ensure that vendors were actually trained prior to receiving system access and the equipment.

Vendor Employee Training

The Commission does not verify that vendors train their employees on how to operate the sales system and the rules and regulations for boat registrations and licenses. According to the application, each vendor is required to provide this training to their employees.

The Commission does not believe it is practical to completely monitor this requirement given the amount of employee turnover at each vendor. While this is likely the case, it may be possible to monitor on a sample basis. For example, the Commission could require that vendors keep a file where the employer and employee sign off and date when the required training occurred. The Commission could then inspect such documentation on a sample basis.

Recommendation: The Commission should ensure that vendors are complying with established requirements. The Commission should also consider developing written policies to clearly communicate the enforcement procedures that should be performed and the related documentation to maintain.

Commission Response: The Commission concurs with the finding.

Submission of Required Documentation - Procedures have been established to ensure that follow-up is noted and supporting documentation is received and maintained in accordance with the contract.

Vendor Principal Training - Appropriate documentation will be maintained to substantiate the requirements.

Vendor Employee Training - The Commission will research methods to ensure that vendors are conducting the required training.

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ORDERING INFORMATION

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