October 22, 2015

Honorable Cindy Adams Dunn
Secretary
Department of Conservation and Natural Resources
Rachel Carson State Office Building, 7th floor
400 Market Street
Harrisburg, 17105

Dear Secretary Dunn:

Enclosed is the final audit report of the Snowmobile and All-Terrain Vehicle (ATV) Restricted Revenue Fund for the period July 1, 2011 through June 30, 2014. This performance audit was conducted in accordance with generally accepted government auditing standards. The report includes the Department of Conservation and Natural Resources’ response to the findings and recommendations.

It is the policy of the Bureau of Audits to follow up on the findings and recommendations. This update should be submitted to our office within 60 days of the report issuance as specified in Management Directive 325.10.

Thank you for your assistance in this matter. If there are any questions or if additional information is needed, please contact me at 717-265-7275 or Allison Morgan at 717-265-7263.

Sincerely,

[Signature]

Brian T. Lyman, CPA
Director

Attachment/Enclosures

cc: Pamela Pasi
   Danielle Beish
   John Koller
BUREAU OF AUDITS

REPORT ON

PENNSYLVANIA DEPARTMENT OF CONSERVATION
AND NATURAL RESOURCES

SNOWMOBILE AND ATV RESTRICTED REVENUE FUND

For the Period
July 1, 2011 through June 30, 2014
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BACKGROUND

In accordance with Title 75 (Vehicles), Pennsylvania (PA) Consolidated Statutes (C.S.) Chapter 77 as amended, snowmobiles and All-Terrain Vehicles (ATVs) operated in Pennsylvania, with limited exceptions, must be registered and titled with the Pennsylvania Department of Conservation and Natural Resources (DCNR). All registration fees, titling fees, and receipts from fines and penalties are placed in the Snowmobile and ATV Restricted Revenue Fund.

DCNR is to use the Snowmobile and ATV Restricted Revenue Fund for performing activities necessary to carry out the purposes of Chapter 77. These activities are to include registration and certificate of title activities, training, education, enforcement activities, construction and maintenance of snowmobile and ATV trails and acquisition of equipment, supplies and interests in land. DCNR may also grant money from the restricted revenue account to municipalities, non-profit organizations, and for-profit businesses for specific activities.

Title 75, PA C.S. Chapter 90 as amended, entitled DCNR to petition the Board of Finance and Revenue to refund annually up to a maximum of $1 million of the tax imposed for the fuel consumed in the operation of motorized recreational vehicles. These funds are also deposited in the Snowmobile and ATV Restricted Revenue Fund. This funding is to be used by DCNR for the improvement of public roadways, highways and bridges that are also used by recreational vehicles.

Sales tax related to the purchase or service of ATV and snowmobiles often is submitted directly to DCNR. When sales or use tax is submitted directly to DCNR, DCNR is responsible for remitting the tax to the PA Department of Revenue (DOR). As a licensed DOR agent, DCNR is permitted to keep 1% of these taxes if taxes are remitted to DOR by the 20th day of the following month. These funds are also deposited in to the Snowmobile and ATV Restricted Revenue Fund.

Through June 30, 2013, snowmobile and ATV titling and licensing activity was processed by DCNR using the Snowmobile and ATV Registration Application (SARA). On July 1, 2013, DCNR began using its current system, Snowmobile ATV Management System (SAMS). In addition, DCNR is responsible for ensuring accurate information is entered into SAP, the Commonwealth's accounting system.

Title 75, PA C.S. Chapter 77, section 7706 (c) provides that the restricted account shall be audited every two years. The previous audit covered fiscal years ended June 30, 2008 through June 30, 2011. This audit cover fiscal years ended June 30, 2012 through June 30, 2014.
We have conducted a performance audit of the Snowmobile and All-Terrain Vehicle (ATV) Restricted Revenue Fund (Fund) for the period July 1, 2011 through June 30, 2014. 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.

The audit objectives, along with the scope, methodology and conclusion for each audit objective, are as follows:

**Audit Objective No. 1**

To obtain evidence that all expenditures incurred during the audit period have been identified and properly supported, recorded, and classified, and to obtain evidence that expenditures are in accordance with the approved budget as to amount and purpose and with other regulations.

**Methodology/Scope**

In order to gain an understanding of DCNR’s processes related to approving and recording expenditures, we interviewed DCNR personnel who communicated that they follow the Department of General Services (DGS) Procurement Handbook, applicable to all state agencies, and their own internal policies. We also reviewed the Snowmobile/ATV Law.

We obtained the universe of expenditures charged to the Fund during our audit period. For each fiscal year in our audit period, we determined a sample size of expenditures to test in each expenditure category (fixed assets, grants, operational, and personnel).

We selected a total sample of sixty-five expenditure postings for detail testing (twenty-two transactions from fiscal years 2011 and 2013, and twenty-one transactions from fiscal year 2012). By design, our sample included fixed assets, grant payments, operational costs and personnel costs.
Audit Objective No. 1  
(Continued)

Methodology/Scope  
(Continued)

For non-payroll expenditures, we obtained and reviewed invoices, contracts, purchase orders, grant agreements, and electronic approvals. For payroll expenditures, we obtained and reviewed SAP payroll posting detail and employee job descriptions. We determined the reasonableness and accuracy of the all sampled costs charged to the fund.

We verified that the sampled expenditures were allowable under Section 7706 (a) of Title 75 (Vehicles) of the Pennsylvania Consolidated Statutes and, if applicable, they were in accordance with the Commonwealth Procurement Handbook requirements and DCNR's Bureau of Recreation and Conservation's Administrative Policy/Grant Guidelines.

We also verified that these expenditures were in accordance with the available budget and were properly identified, recorded and classified in the Commonwealth’s accounting system (SAP).

Conclusion

Based on our detailed testing, sampled expenditures incurred during the audit period were identified and properly supported, recorded, and classified. Test items were found to be in accordance with the approved budget, as to amount and purpose, and in accordance with relevant regulations.

Related Findings and Recommendations

None.

Audit Objective No. 2

To obtain assurance that revenue accounts include all transactions that relate to the period and that all revenues received were transmitted to the State Treasury.

Methodology/Scope

In order to gain an understanding of the related revenue process, we interviewed DCNR management and Comptroller Operations cash management personnel. We also reviewed the Office of the Budget’s Revenue Processing Desk Procedure Manual, DCNR’s website and the relevant legislation. DCNR provided the auditors with written information relating to their Snowmobile and ATV Registration Application (SARA). Management discussed DCNR's revenue process and internal controls existing within SARA. DCNR shared with the auditors their SARA User
Audit Objective No. 2  
(Continued)

Methodology/Scope  
(Continued)

Manual, a reference guide for DCNR staff, and their SARA Voucher Manual, a voucher system designed to record revenue (sales tax/fees) collected for Snowmobile/ATV applications. Both were reviewed by the auditors for procedures and controls relating to DCNR’s revenue processing.

SARA was activated by DCNR in 2001 and was replaced in July 2013 by Snowmobile ATV Management System (SAMS). Our audit period spans both SARA (used in fiscal years 2011 and 2012) and SAMS (used in fiscal year 2013). DCNR has not yet written the revenue process and related internal control procedures for SAMS. Staff is trained verbally and no formal procedure manual has been developed yet. Therefore, the auditors gained an understanding of the revenue process as it relates to SAMS through interviews with key DCNR personnel and observation of processing. As part of our procedures we documented DCNR’s processes and controls related to SAMS including DCNR’s Fiscal Division’s monthly reconciliations.

For each fiscal year in our audit period, we tested revenue flow in two directions:

1. As recorded in SAP, to SARA or SAMS.
2. As reported by SARA or SAMS, to SAP.

For each test of revenues we randomly selected months and revenue transactions posted within each fiscal year in our audit period.

For the first reconciliation of revenues (SAP to SARA or SAMS) we randomly selected sample months: August 2011, August 2012, and March 2014. We then randomly selected ten revenue transactions for each of these sample months for detail testing. For this sample of revenues posted in SAP, we verified that correct revenues were received and that the revenues posted in SAP were also posted in SARA and Treasury. We verified that the Liquid Fuels Tax transaction in fiscal year 2011 was also received and posted in SAP and Treasury and that posting of revenue was timely.
Audit Objective No. 2  
(Continued)

For the second reconciliation of revenues (from SARA or SAMS to SAP) we randomly selected sample months: July 2011, September 2012, and April 2014. For fiscal year 2011 and 2012 (years in which SARA was used), we obtained DCNR’s Transmittal Summary Report for July 2011 and September 2012, and haphazardly selected ten Transmittal Vouchers (TRs) from each summary. From each of these, we then selected one transaction for detail testing. For fiscal year 2013 (year in which SAMS was used), we obtained two SAMS-generated reports, one report listing all credit card transactions and one report listing all check and money order transactions for the month of April 2014. We then selected a judgmental sample of five from each report for a total of ten revenue transactions for the test month. For this sample of revenues posted in SARA or SAMS, we verified that correct revenues were received and that the revenues posted in SARA or SAMS were also posted in SAP and Treasury and that posting of revenue was timely.

In addition, we tested that the thirty revenue transactions posted to SARA/SAMS were supported by corresponding Snowmobile/ATV titles and/or registrations. As part of this detail testing we also ensured that sales tax transactions were properly recorded in SAP and that all revenue was transmitted to the State Treasury.

We did not reconcile SARA revenues to SAP, or the SARA system to DCNR’s PNC bank account, for fiscal years 2011 and 2012. As noted in our prior audit report, a significant amount of investigation was required to perform the reconciliations, which resulted in only small variances. In addition, on July 1, 2013, DCNR decommissioned SARA and implemented SAMS. Based on this, we reviewed and documented the Fiscal Division's reconciliations for our test month of April 2014. DCNR’s Fiscal Division performs 2 reconciliations every month: 1) YourPay to SAMS and 2) YourPay to PNC Bank.
Audit Objective No. 2
(Continued)

Conclusion Based on our procedures, we found that sampled revenue transactions were complete and that all revenues received were transmitted to the State Treasury.

In addition, DCNR performed regular reconciliations between their systems and SAP.

However, DCNR could improve internal controls over the recording, classifying, and transmission of Snowmobile and ATV revenue by developing formal written revenue procedures for SAMS, which was implemented on July 1, 2013.

Related Findings and Recommendations See Finding No. 1.

Audit Objective No. 3

Methodology/Scope To obtain evidence that encumbrances (i.e., commitments related to unperformed contracts for goods and services) are properly identified, supported, classified and recorded.

In order to gain an understanding of DCNR’s procedures related to approving and recording encumbrances, we interviewed DCNR personnel who communicated that they follow the DGS Procurement Handbook, applicable to all state agencies, and their own internal policies. Expenditures from the restricted fund must also adhere to the Snowmobile/ATV Law.

For each fiscal year of the audit period, we obtained the universe of encumbrances charged to the Fund. We selected a sample of encumbrances from our audit period. By design, our sample included encumbrances for fixed assets, grant payments and operational costs. For these encumbrances, we obtained and reviewed applicable DCNR documentation to determine whether the commitments were properly identified, supported, classified, and recorded. For each encumbrance, we ensured costs were for allowable activities, contained supporting documentation and were properly approved.
Pennsylvania Department of Conservation and Natural Resources
Snowmobile and ATV Restricted Revenue Fund
For the Period July 1, 2011 through June 30, 2014

Audit Objective No. 3
(Continued)

Conclusion With the exception of one encumbrance we identified that remained open and carried a balance for almost four years after the related agreement ended, commitments were properly identified, supported, classified, and recorded.

Related Observation See Observation No. 1.

Internal Controls

In planning and performing our audit, we considered internal controls that are significant within the context of our audit objectives and assessed whether such controls had been properly designed and implemented. Based on our assessment of the internal controls, we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on DCNR’s internal control. Any significant control deficiencies that came to our attention during the audit are included in the findings section of this report.

This report is intended solely for the information and use of DCNR and Office of Budget management and is not intended to be and should not be used by anyone other than these specified parties.

Brian T. Lyman, CPA
Director, Bureau of Audits

October 5, 2015
Pennsylvania Department of Conservation and Natural Resources
Snowmobile and ATV Restricted Revenue Fund
For the Period July 1, 2011 through June 30, 2014

FINDINGS AND RECOMMENDATIONS

Finding No. 1  DCNR Does Not Have Written Instructions For Processing Revenue in SAMS

DCNR did not have written policies and procedures for the revenue process and internal controls for their current accounting system, SAMS (Snowmobile ATV Management System), which was implemented on July 1, 2013. DCNR officials stated that they are planning to write the process soon and that since April 1, 2015, internal dealers have defined roles that determine how they can use SAMS: Administrator, Lead Worker, and Worker.

Written policies and procedures help ensure DCNR is following Management Directive 310.13, Responsibilities for Comprehensive Annual Financial Reporting, dated December 21, 2012, section 6.d., which states, in part, that agency heads shall be responsible for:

1. Ensuring the establishment and maintenance of procedures and controls necessary to implement prescribed accounting and financial reporting policies, guidelines, and standards.
2. Ensuring the timely, accurate, and complete processing and recording of all transactions and balances in accordance with prescribed accounting and financial reporting policies, guidelines, and standards.
3. Ensuring the existence of appropriate financial controls and accountability within all agency enhancements to the system.

Written procedures help ensure consistent training of staff, and clarify responsibilities. They help identify controls that can be evaluated, monitored, and tested. In addition, written procedures could assist IT personnel in understanding SAM's current functionality and in designing enhancements to the system.

DCNR officials explained that when SAMS was implemented DCNR did not have written policies and procedures due to time constraints. The IT-contracted staff was to have written the procedures, but this did not occur prior to contract expiration. DCNR has since trained staff verbally.

As a result of not having written policies and procedures for SAMS, DCNR relies heavily on one person for the training and knowledge sharing of SAMS. Written policies and procedures should be established to ensure adequate continuity of processing and knowledge transfer related to SAMS in the future. In addition, without written policies and procedures, DCNR management may not identify controls that can be evaluated, monitored, and tested.

Recommendation

We recommend that DCNR establish written policies and procedures for the revenue process and internal controls surrounding their current accounting system, SAMS.
Pennsylvania Department of Conservation and Natural Resources
Snowmobile and ATV Restricted Revenue Fund
For the Period July 1, 2011 through June 30, 2014

FINDINGS AND RECOMMENDATIONS

Finding No. 1 DCNR Does Not Have Written Instructions For Processing Revenue in SAMS (Continued)

Auditee Response

DCNR management agreed with the above recommendation. DCNR noted that the auditors recognize this is a newly designed system and that DCNR will be writing procedures for SAMS, as described in the following steps and corrective action plan:

- DCNR noted that they now have technical documentation that speaks to the architecture and implementation of the payment processing functions and have documentation of specific requirements that have been used to implement payment processing in SAMS.
- DCNR has discussed among the team the need for more formal documentation of the systems and subsequently payment processing from the user perspective. Their plan is to produce this once they have fully consolidated payment functions into SAMS.
- DCNR expects that they will be able to produce this documentation, that will satisfy this corrective action plan, by the end of November, 2015.
OBSERVATIONS

Observation No. 1 Encumbrance Remained Open After Contract Ended

We identified an encumbrance that remained open and carried a balance of $200,804.04 almost four years after the contract period ended. Funds Commitment 4000009867 was established on July 14, 2006, with $500,000 to be expended for the period of the contract, July 1, 2006 through June 30, 2011. The last payment from the encumbrance, $28,761.34, was made on July 13, 2011. The encumbrance was closed on May 4, 2015, after auditor inquiry into the encumbrance was made.

An encumbrance should be closed upon completion of the contract, so that management is aware of all available funds. The Commonwealth of Pennsylvania Manual of Accounting (CPMA), page 21 of 153, states, in part:

Encumbrances are commitments related to unperformed contracts for goods and services. They are established to recognize that an agency has obligated a portion of its appropriated funds to a specific use and thus recognizes that those funds are not available for other purposes. (Italics added.) Once goods and services are received, accounting entries are made to liquidate the encumbrance and recognize the expenditure.

DCNR responded that program staff overlooked the encumbrance balance and did not catch the error until May 2015. DCNR noted changes in personnel as the program responsibilities were handed off to two different employees.

As a result, encumbrances were over-stated and DCNR management was not aware of all funds available for planning and budgeting.

Recommendation

We recommend that DCNR establish procedures to ensure encumbrances are reviewed regularly to determine proper disposition.

Auditee Response

DCNR management agreed with the above recommendation. It noted it does have procedures in place for routine review of all encumbrances. It adds that the review of open documents is ongoing, with added emphasis/reminders in October and May/June of the fiscal year. Accordingly, DCNR believes there is no need for a specific corrective action plan. The agency will take steps to draw attention to this observation and ensure program staff understand the importance of reviewing open documents.