

AUDIT SUMMARY

Our audit of the **Department of Forestry** for the year ended June 30, 1998 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a certain matter that we consider a reportable condition; however, we did not identify any material weaknesses in internal controls; and
- an instance of noncompliance with the provisions of applicable laws and regulations.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Evaluate Forestry's Information Management System

Forestry relies heavily on information provided by its Information Management System (IMS). IMS is a database system developed in the early 1990's by an ex-Forestry employee. The system is a DOS-based application using antiquated database software and proprietarily written source code for which Forestry does not have access. The system is both cumbersome and difficult for users. For example, developing and retrieving reports from IMS is very time consuming and difficult to achieve.

Forestry management relies on IMS for staff activity accounting, property accounting and management, client records and billing information, tracking program activities for the Reforestation of Timberlands program, allocating costs among its federal grant programs, and other uses. This information is vital to many activities within Forestry.

Forestry is in the process of evaluating its system requirements and upgrading IMS. This evaluation should include a cost/benefit analysis of upgrading IMS versus replacing IMS with a modern database system. The resulting system should provide timely, reliable information in a format which meets management's and other users' needs and is easy to use.

Maintain Adequate Source Documentation for Federal Grant Billings

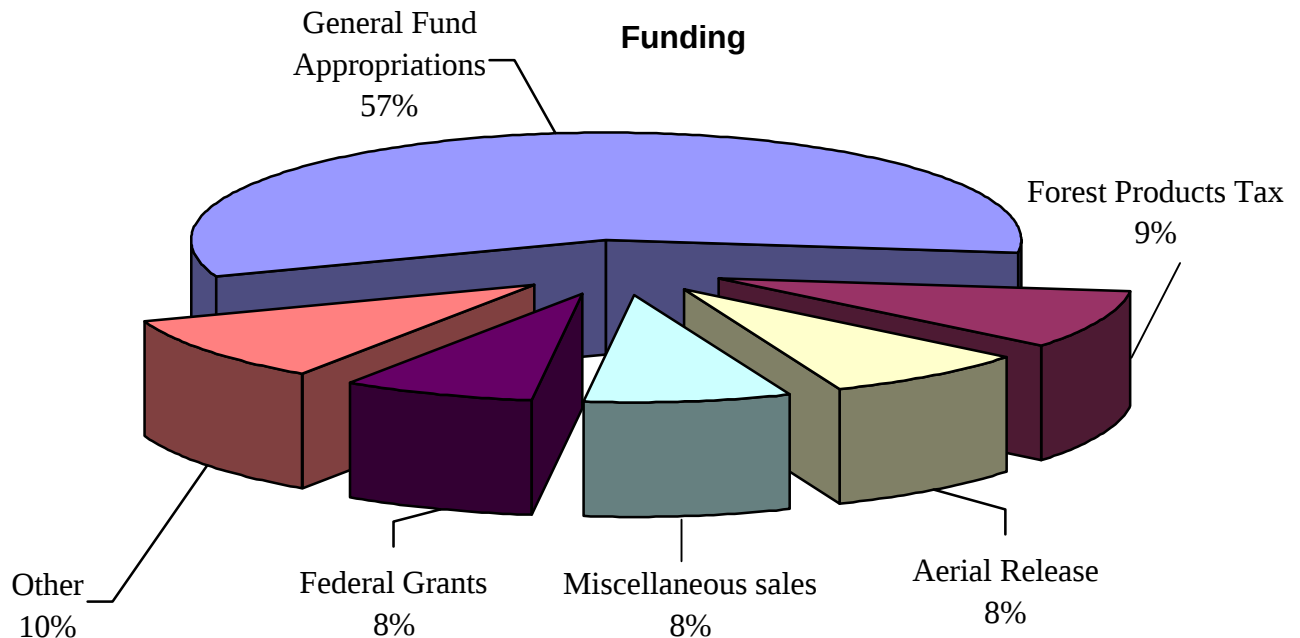
The Department of Forestry failed to prepare sufficient source documentation substantiating personnel costs for the "Difficult Run Riparian Project" federal program. Initially, our review revealed that for 1997, Forestry could not support \$14,729 of the \$62,439 reported as grant expenses. Subsequently, Forestry provided documentation that substantiated the unsupported expenses through in-kind matching.

The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (The Common Rule) requires that accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, and time and attendance records. We recommend that the Department of Forestry develop and maintain adequate source documentation to substantiate all personnel charges to federal grants.

AGENCY HIGHLIGHTS

The **Department of Forestry** is responsible for protecting and developing healthy, sustainable forest resources for all Virginians, including managing the forests on the 14 State Forest properties located throughout Virginia and providing forest fire protection. Forestry also provides technical assistance to private landowners to assist them in managing their forest land for forest products, water quality, protection of threatened and endangered species, historic resources, and wildlife habitat.

During fiscal year 1998, the Department received funding totaling over \$21 million from the General Fund, federal grants, and other sources, such as the Aerial Release Program and the Forest Products Tax. The Aerial Release Program generates revenue from individuals who have Forestry spray their properties with herbicides over newly planted trees while the Forest Products Tax is a tax collected through the Department of Taxation from individual state tax returns.



During the year ended June 30, 1998, the following changes were made to Forestry's original appropriation, including supplemental appropriations and reductions in accordance with Section 1-101 of the Appropriations Act of 1997, Chapter 924, Acts of Assembly, as amended.

Original legislative appropriation	\$ 11,847,045
Adjustments:	
Compensation supplement	493,453
Fringe benefit adjustments	(54,435)
Telecommunication and computer adjustments	(4,204)
Maintenance reserve appropriation	<u>182,945</u>
Net adjusted appropriations	<u>\$ 12,464,804</u>

Forestry operates four programs: Forestry Operations, Reforestation Operations, Forestry and Reforestation Incentives, and Financial Assistance.

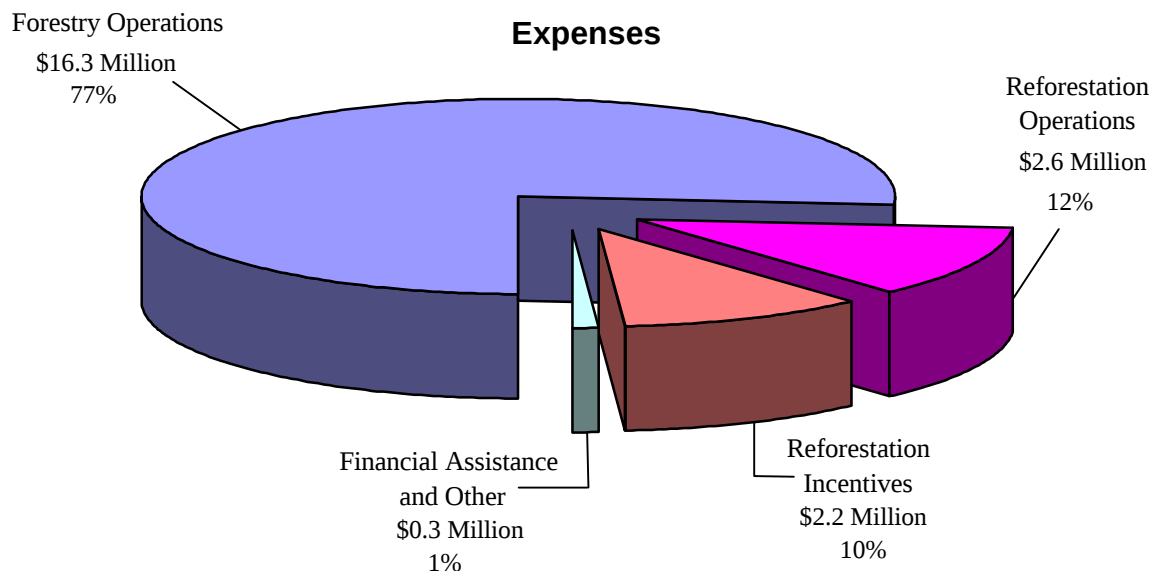
The *Forestry Operations* program includes a variety of forest management activities. Through this program, Forestry manages forest fires through prevention, readiness, mobilization, detection, and suppression. Forestry Operations also provides technical assistance to private landowners and state agencies on managing forest land. In addition, Forestry provides marketing and utilization assistance to the forest industry and assists in the planning, establishment, management, and utilization of urban and community forest ecosystems. Periodic statewide aerial and ground surveys keep Forestry abreast of changes in forest pest populations, their identity, location, and impact. Forestry assists individual landowners by providing information to protect their forestlands against any major insect and disease infestations. The funding for this program comes from General Funds, federal grants, forest products tax, and fees for aerial release, forest fire control, and forestry services to landowners.

The *Reforestation Operations* program provides three services: Tree Improvement, Tree Nurseries, and State Forests. The Tree Improvement Program develops and distributes genetically improved tree seedlings. The nurseries program consists of three nurseries that produce tree seedlings for private, industrial, and public landowners. Finally, Forestry uses the state forests as demonstration and educational areas to show best practices to local landowners, forest industries, and many public schools and universities.

The *Forestry and Reforestation Incentives* program provides technical assistance, specialized forestry equipment, and forestry services to small timber owners. Incentive payments provide financial assistance to forest landowners who have a maximum of five hundred acres per project. This program's primary funding comes from the Forest Products Tax and the General Fund.

Forestry's *Financial Assistance* program provides financial aid for nonprofit volunteer fire companies and for community forestry programs. Funding for this program is primarily through federal grants and contracts.

During fiscal year 1998, Forestry expenses exceeded \$21.4 million. Over fifty-eight percent was for salaries, wages, and benefits while approximately sixteen percent was for contractual services.



May 3, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Forestry** for the year ended June 30, 1998. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the internal control structure, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the account receivables, revenue and cash receipts, expense, and fixed asset cycles.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure

are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System (CARS). The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in the accompanying tables came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving the internal control structure and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data. This reportable condition is discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We do not believe this reportable condition is a material weakness.

The results of our tests of compliance disclosed an instance of noncompliance with applicable laws and regulations. This noncompliance finding is entitled *Maintain Adequate Source Documentation for Federal Grant Billings* and is discussed in the "Internal Control and Compliance Findings and Recommendations" section of this report.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 16, 1999.

AUDITOR OF PUBLIC ACCOUNTS

PBB:whb
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Charlottesville, Virginia

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