

DEPARTMENT OF FORESTRY

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDING
JUNE 30, 2006**



AUDIT SUMMARY

Our audit for the Department of Forestry for the two-year period ending June 30, 2006 found:

- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- A matter involving internal control and its operations necessary to bring to management's attention; and
- No instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Strengthen Internal Controls Over Capital Asset Useful Life Methodologies

The Department of Forestry (Forestry) does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). Forestry has not developed and implemented an agency specific useful life methodology. As a result, Forestry has a significant amount of fully depreciated assets and that amount has steadily increased from \$13.4 million in fiscal year 2002 to \$17.0 million in fiscal year 2006; the majority of these are equipment assets.

GASB Statement No. 34, implemented in 2002, requires the Commonwealth to show in its Comprehensive Annual Financial Report (CAFR) accumulated depreciation and depreciation expense. The second implementation guide for GASB Statement No. 34 states, "If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated." Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset's remaining life.

Forestry should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.

AGENCY HIGHLIGHTS

Forestry's central office is located in Charlottesville at the Fontaine Research Park. Forestry has six regional offices that are located in Waverly, Tappahannock, Charlottesville, Farmville, Salem, and Abingdon and approximately 20 area offices report to the regional offices. In addition, Forestry manages two seedling nurseries in Augusta and Garland Gray, and two state forest offices in Buckingham and Cumberland. Currently, Forestry has 278 full-time employees located throughout the state. Forestry receives funding from General Fund appropriations, Special Revenue Funds, and Federal Grants. Special Revenue Funds consist of revenue generated through nursery and timber sales, aerial release services, fire suppression services, and forest products taxes.

Forestry expenses consist primarily of personal services, contractual services, and transfer payments. New in fiscal year 2006, Forestry established a trust fund to establish, preserve, improve, maintain, and develop 400 acres of forested land plus structures in Grayson County.

Forestry protects and manages forest resources for Virginians with the following four sub-programs. The following sections summarize the purpose, funding, and expense detail of each sub-program.

Forestry Operations - Forestry protects forest resources, life, and property against forest fires through prevention, readiness, mobilization, detection, and suppression. 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. Through this program Forestry monitors and regulates forest activities such as harvesting and the use of herbicides to protect water quality. Forestry operations also provide technical assistance to private landowners and state agencies on managing and protecting forests. General, Special Revenue, and Federal funds support this program.

Reforestation Operations - Forestry operates tree nurseries, state forests, and a tree improvement program. Forestry's tree improvement program provides genetically improved tree seedlings. Forestry operates two nurseries that produce tree seedlings for private, industrial, and public landowners and receives funding primarily from seedling sales. Forestry uses the state forests as demonstration and educational areas for local landowners, forest industry, and public schools and universities. The state forests are self-supporting, primarily through timber sales, and also return 25 percent of gross receipts to counties in lieu of taxes.

Forestry and Reforestation Incentives – Forestry provides technical assistance, specialized forestry equipment, and forestry services to small timber owners through this program. Incentive payments provide financial assistance to forest landowners, up to one hundred acres per project. General funds and forest product taxes provide the funding for this program.

Financial Assistance – Forestry provides financial aid for nonprofit volunteer fire companies and for urban and community forestry assistance programs. The purpose of urban and community assistance programs are to enhance understanding of the benefits of preserving tree cover, provide educational programs and technical assistance, develop sustainable urban forestry programs at the local level, and promote volunteerism in implementing urban forestry programs. Federal grants support this program.

FINANCIAL INFORMATION

The schedules below summarize Forestry's budgeted expenses compared with actual results for fiscal years 2006 and 2005.

Analysis of Budgeted and Actual Expenses Fiscal Years Ended June 30, 2006 and June 30, 2005

<u>Fiscal</u> <u>Year</u>	<u>Program Expenses</u>		<u>Actual</u> <u>Expenses</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	
2006	\$25,642,796	\$32,376,244	\$30,675,920
2005	24,053,792	29,290,164	26,343,317

<u>Fiscal</u> <u>Year</u>	<u>Expenses by Funding Source</u>			
	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenues</u>	<u>Dedicated</u> <u>Special Revenue</u>	<u>Federal</u> <u>Revenue</u>
2006	\$17,498,932	\$7,316,110	\$69,186	\$5,791,692
2005	14,419,566	6,726,320	21,052	5,186,379

Forestry's General Fund appropriations went up from fiscal year 2005 to fiscal year 2006. This increase results from the reestablishment of appropriations for the Reforestation of Timberland projects, and appropriations added in fiscal year 2006 to replace hardware and provide rural broadband internet access for regional, district, and county offices. The difference between final budget and actual expenses in both fiscal years was due to timing differences for federal grant expenses, as well as the closing of the New Kent nursery. Forestry plans to submit an adjustment to permanently reduce their budget for future fiscal years in relation to this fund.

The following schedule summarizes Forestry's expenses by sub-program and type for fiscal years 2006 and 2005. The schedule does not include capital outlay expenses of \$1,895,732 in 2006, and \$1,705,038 in 2005. In fiscal year 2006, these expenses were for construction of a new area office for Grayson and Carroll counties, as well as expenses for the acquisition of forest land. In fiscal year 2005, these expenses were primarily for acquisition of forest land. As shown in the schedule, Forestry Operations is Forestry's largest sub-program, with the majority being personal services expenses.

Expenses by Sub-Program
Fiscal Year Ended June 30, 2006

	Forestry and Reforestation Incentives	Forestry Operations	Reforestation Operations	Financial Assistance
Personal services	\$ 304,350	\$14,969,637	\$1,474,759	\$ -
Contractual services	144,253	4,592,260	503,350	-
Supplies and Materials	92,808	1,678,234	492,231	-
Financial assistance and incentives	1,306,036	445,566	199,583	645,964
Rent, insurance, and utilities	11,151	1,121,738	91,790	-
Property, plant, and equipment	<u>17,471</u>	<u>2,489,278</u>	<u>95,463</u>	<u>-</u>
Total	<u>\$1,876,069</u>	<u>\$25,296,713</u>	<u>\$2,857,176</u>	<u>\$645,964</u>

Expenses by Sub-Program
Fiscal Year Ended June 30, 2005

	Forestry and Reforestation Incentives	Forestry Operations	Reforestation Operations	Financial Assistance
Personal services	\$ 248,369	\$13,193,768	\$1,398,314	\$ -
Contractual services	131,385	4,178,875	302,911	-
Supplies and materials	67,288	1,151,926	395,730	-
Financial assistance and incentives	983,576	349,510	227,094	779,251
Rent, insurance, and utilities	8,372	1,131,329	92,581	-
Property, plant, and equipment	<u>2,232</u>	<u>1,630,534</u>	<u>70,271</u>	<u>-</u>
Total	<u>\$1,441,222</u>	<u>\$21,635,942</u>	<u>\$2,486,901</u>	<u>\$779,251</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 26, 2007

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Forestry** (Forestry) for the two-year period ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Forestry's internal controls and test compliance with applicable laws and regulations.

Audit Scope and Methodology

Forestry's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. 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 and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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:

- Federal grant revenues and expenditures
- Contractual services expenditures
- Payroll expenditures
- Fixed assets

We performed audit tests to determine whether Forestry'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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, observation of Forestry's operations, and review of applicable sections of the Code of Virginia. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

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

We noted a matter involving internal control and its operation that requires management's attention and corrective action. This matter is described in the section entitled "Audit Findings and Recommendations." The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on April 9, 2007. Management's response has been included at the end of this report.

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

AVG:sks
sks:44



DEPARTMENT OF FORESTRY

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Charlottesville, VA 22903
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MEMORANDUM

DATE: April 11, 2007
TO: David A. Von Moll; Comptroller
FROM: Carl E. Garrison III; State Forester
CC: The Honorable Robert S. Bloxom
Secretary of Agriculture and Forestry

A handwritten signature in black ink, appearing to read "Carl E. Garrison III", is written over the "FROM:" line of the memorandum.

Mr. Walter J. Kucharski
Auditor of Public Accounts

Mr. Richard D. Brown, Director
Department of Planning and Budget

SUBJECT: Action Plan, APA's Audit Report
for the Years Ending June 30, 2005 and June 30, 2006

We have reviewed the audit report for the two-year period that ended June 30, 2006 conducted by the Auditor of Public Accounts. The table below identifies the corrective action that will be taken.

Recommendation	Proposed Corrective Action	Implementation date	Responsible Position
Forestry should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.	We will develop procedures for assigning useful lives based on agency practices such as vehicle rotation schedules. In addition, we will include a process for requesting a new nomenclature code or altering an existing nomenclature code when appropriate.	9/30/07	Donald Unmussig; Director of General Services
	We will examine currently assigned useful lives of buildings over \$100,000 and equipment over \$50,000 and make adjustments before they are fully depreciated if a change is warranted.	12/31/07	

DEPARTMENT OF FORESTRY

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