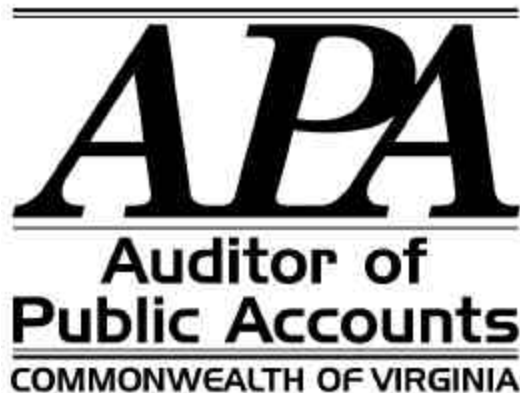


**DEPARTMENT OF FORESTRY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD MARCH 1, 2001
THROUGH DECEMBER 31, 2002**



AUDIT SUMMARY

Our audit of the Department of Forestry for the period March 1, 2001 through December 31, 2002 found:

- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- No material weaknesses in internal control; and
- No instances of noncompliance with applicable laws and regulations that are required to be reported.

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AGENCY HIGHLIGHTS

The Department of Forestry's (Forestry) 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. Approximately 20 area offices report to the regional offices. In addition, Forestry manages three seedling nurseries in Augusta, Garland Gray, and New Kent and two state forest offices in Buckingham and Cumberland. Currently, Forestry has 280 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.

Forestry protects and manages forest resources for Virginians with the following four programs. During the past year, the Department has made continual adjustments to their budget. The following sections summarize the purpose, funding, and expense detail of each 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 three 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 revenues and expenses compared with actual results for fiscal year 2002 and original and adjusted budget for fiscal year 2003.

Analysis of Budgeted and Actual Revenue by Funding Source Fiscal Year Ended June 30, 2002

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>
General fund appropriations	\$ 15,533,059	\$ 14,484,128	\$14,484,128
Special revenue funds	7,339,615	8,084,451	7,546,696
Federal grants	<u>1,995,063</u>	<u>4,210,927</u>	<u>3,036,399</u>
Total resources	<u>\$ 24,867,737</u>	<u>\$ 26,779,506</u>	<u>\$25,067,223</u>

Analysis of Budgeted and Actual Expenses by Program Fiscal Year End June 30, 2002

<u>Program</u>	<u>Program Expenses</u>			<u>Funding Source</u>		
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>General Fund</u>	<u>Special Revenues</u>	<u>Federal Grants</u>
Forestry operations	\$19,058,932	\$20,606,003	\$19,697,018	\$13,422,738	\$3,555,006	\$2,719,274
Reforestation operations	2,913,016	3,012,029	2,858,953	-	2,858,953	-
Forestry and reforestation incentives	2,595,789	2,343,425	2,212,481	1,061,390	1,151,091	-
Financial assistance	<u>300,000</u>	<u>818,049</u>	<u>378,308</u>	<u>-</u>	<u>-</u>	<u>378,308</u>
Total uses	<u>\$24,867,737</u>	<u>\$26,779,506</u>	<u>\$25,146,760</u>	<u>\$14,484,128</u>	<u>\$7,565,050</u>	<u>\$3,097,582</u>

Analysis of Original and Adjusted Budget Fiscal Year End June 30, 2003

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>
General fund appropriations	\$ 15,181,815	\$ 14,222,960
Special revenue funds	7,626,183	7,778,893
Federal grants	<u>2,020,260</u>	<u>4,120,918</u>
Total resources	<u>\$ 24,828,258</u>	<u>\$ 26,122,771</u>

As with all state agencies, Forestry has undergone recent budget reductions in its general fund appropriations. Forestry has addressed these reductions by not filling vacant positions, decreasing its Forestry and Reforestation Incentive Program, and implementing the master equipment lease program, which spreads the cost of equipment purchases over multiple years. Forestry received an additional federal grant during the

year, and therefore, increased the budgeted revenue and expenses in its Forestry Operations and Financial Assistance programs. Since this is a reimbursement grant, Forestry had to incur expenses before it could request the federal funds. Due to a timing difference in the grant period and fiscal year-end, Forestry did not incur the expenses and receive reimbursement before year-end. Therefore, Forestry increased its budgeted federal revenue for fiscal year 2003, which is when Forestry expects to incur the grant expenses. Forestry increased its special revenue fund budget in fiscal year 2002 to include cash balances carried forward from the prior year and in anticipation of a greater demand for aerial release services. Forestry used its special revenue cash balances to fund differences between actual revenue and expenses.

The schedules below summarize Forestry's expenses by program and type for fiscal year 2002 and through December 31, 2002, for fiscal year 2003.

**Expenses by Program
Fiscal Year Ended June 30, 2002**

Expenses by Program	Forestry and Reforestation Incentives	Forestry Operations	Reforestation Operations	Financial Assistance
Personal services	\$ 512,195	\$13,106,478	\$ 1,550,846	\$ -
Contractual services	167,736	3,937,430	489,313	-
Supplies and materials	17,973	1,159,720	381,904	-
Financial assistance and incentives	1,505,939	9,593	197,665	378,308
Rent, insurance, and utilities	8,306	574,753	93,934	-
Property, plant and equipment	<u>332</u>	<u>909,044</u>	<u>145,291</u>	<u>-</u>
Total expenses	<u>\$ 2,212,481</u>	<u>\$19,697,018</u>	<u>\$ 2,858,953</u>	<u>\$ 378,308</u>

**Expenses by Program
July 1, 2002, to December 31, 2002**

Expenses by Program	Forestry and Reforestation Incentives	Forestry Operations	Reforestation Operations	Financial Assistance
Personal services	\$ 229,077	\$ 6,838,919	\$ 832,796	\$ -
Contractual services	2,431	1,720,250	185,443	-
Supplies and materials	4,590	432,438	191,028	-
Financial assistance and incentives	385,247	72,212	5,985	392,547
Rent, insurance, and utilities	-	129,280	40,735	-
Property, plant and equipment	<u>-</u>	<u>220,383</u>	<u>26,019</u>	<u>-</u>
Total expenses	<u>\$ 621,345</u>	<u>\$ 9,413,482</u>	<u>\$ 1,282,006</u>	<u>\$ 392,547</u>

February 24, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
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 period March 1, 2001 through December 31, 2002. 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 Department's internal control, and test compliance with applicable laws and regulations.

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 following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues and Cash Receipting
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. 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 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.

The Department'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls 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. The Department 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 no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 20, 2003.

AUDITOR OF PUBLIC ACCOUNTS

SAH:whb
whb:48

DEPARTMENT OF FORESTRY
Charlottesville, Virginia

BOARD OF FORESTRY

Mary T. Bates, Chairman

Dean A. Ablowich	H.A. McCready
William T. Carden	Michael Gordon McGlothlin
Douglas W. Domenech	William H. Rilee
James E. Edmunds, II	John W. Root
McChesney Goodall, III	E. Lee Showalter
Franklin E. Hall	Josephine B. Thorpe
Melvin L. Harrell	C. Harrell Turner
Steven S. Hoffman	Anitra B. Webster
R. Easton Loving	Alpheus L. White

Sandra Whitmore

OFFICIALS

James W. Garner, State Forester

James E. Bowen, Assistant State Forester