

**DEPARTMENT OF FORESTRY**

**REPORT ON AUDIT  
FOR THE PERIOD  
JANUARY 1, 2003 THROUGH JUNE 30, 2004**



## **AUDIT SUMMARY**

Our audit of the Department of Forestry for the period January 1, 2003, through June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- management has established and maintained internal controls over the revenues and expenditures tested; and
- compliance with applicable laws and regulations.

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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 two seedling nurseries in Augusta and Garland Gray and two state forest offices in Buckingham and Cumberland. During fiscal year 2004, Forestry closed its nursery located in New Kent. Currently, Forestry has 263 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 and contractual services and financial assistance and incentives.

Forestry protects and manages forest resources for Virginians with four programs. The following sections summarize the purpose and funding 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 provides 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 100 acres per project. In prior years, the General Fund and forest product taxes have provided the funding for this program. However, the program has had its funding significantly reduced over the last few years and in fiscal year 2004, it received no funding from the General Fund.

***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 is 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 2004.

### Analysis of Budgeted and Actual Appropriations and Funding Fiscal Year Ended June 30, 2004

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Funding Received</u>
General Fund appropriations	\$13,663,869	\$14,366,321	\$14,366,321
Special revenue	3,866,276	4,929,469	4,121,980
Dedicated special revenue	3,579,128	3,679,128	3,077,099
Federal revenue	<u>2,020,260</u>	<u>6,965,344</u>	<u>5,920,639</u>
Total	<u>\$23,129,533</u>	<u>\$29,940,262</u>	<u>\$27,486,039</u>

### Analysis of Budgeted and Actual Expenses Fiscal Year Ending June 30, 2004

#### Program Expenses

<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>
<u>\$23,129,533</u>	<u>\$29,940,262</u>	<u>\$26,970,263</u>

#### Expenses by Funding Source

<u>General Fund</u>	<u>Special Revenues</u>	<u>Dedicated Special Revenue</u>	<u>Federal Revenue</u>
<u>\$13,850,190</u>	<u>\$4,023,243</u>	<u>\$3,256,038</u>	<u>\$5,840,792</u>

Forestry's revenue increased significantly due to an increase in federal funding particularly within the Cooperative Forestry Assistance Program. The growth of this program comes from Forestry's involvement with the Forest Legacy Program, which allows Forestry to purchase land and conservation easements threatened with development. During fiscal year 2004, Forestry purchased a tract of land and provided funding to the Virginia Outdoors Foundation to purchase a conservation easement in order to preserve the land in perpetuity. In addition, Forestry received additional federal funding through its participation in the National Fire Plan, which focuses on actively responding to severe wild land fires and their impact on communities.

The following schedule summarizes Forestry's expenses by program and type for fiscal year 2004. The schedule does not include \$2,031,542 in capital outlay program expenses for the purchase of the tract of land and conservation easement discussed above.

Expenses by Program  
Fiscal Year Ended June 30, 2004

<u>Expenses by Program</u>	<u>Forestry and Reforestation Incentives</u>	<u>Forestry Operations</u>	<u>Reforestation Operations</u>	<u>Financial Assistance</u>
Personal services	\$ 202,374	\$12,656,653	\$1,765,732	\$ -
Contractual services	179,832	3,266,038	408,543	-
Supplies and materials	39,007	939,562	402,659	-
Financial assistance and incentives	571,037	432,848	225,443	671,599
Rent, insurance, and utilities	11,190	862,000	89,986	-
Property, plant, and equipment	<u>460</u>	<u>2,075,219</u>	<u>138,539</u>	<u>-</u>
Total	<u>\$1,003,900</u>	<u>\$20,232,320</u>	<u>\$3,030,902</u>	<u>\$671,599</u>



# Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 22, 2005

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

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Forestry** for the period January 1, 2003, through June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Department's activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the Department's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

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, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

Federal grant revenue and expenditures  
Contractual services expenditures

Payroll expenditures  
Financial assistance and incentives payments

We gained an understanding of the overall internal controls surrounding these cycles, 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. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed.

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, regulations, contracts, and grant agreements. 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 for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters 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 citizens of the Commonwealth of Virginia and is a public record.

#### EXIT CONFERENCE

We discussed this letter with management at an exit conference held on May 17, 2005.

AUDITOR OF PUBLIC ACCOUNTS

SH/kva



DEPARTMENT OF FORESTRY

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OFFICIALS

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State Forester

John M. Carroll  
Deputy State Forester

James E. Bowen  
Assistant State Forester