

DEPARTMENT OF FORESTRY

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2009, 2010 AND 2011**



AUDIT SUMMARY

Our audit of the **Virginia Department of Forestry**, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters 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.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	3
FINANCIAL INFORMATION	4
INDEPENDENT AUDITOR’S REPORT	5-6
AGENCY OFFICIALS	7

AGENCY HIGHLIGHTS

Forestry has a central office located in Charlottesville, three regional offices located in New Kent, Charlottesville, and Abingdon, and approximately 30 area offices that report to the regional offices. In addition, Forestry manages two seedling nurseries in Augusta and Garland Gray, and three state forest offices in Buckingham, Cumberland, and Grayson. Currently, Forestry has 240 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, fire suppression services, and forest products taxes.

Forestry protects and manages forest resources for Virginians with the following four service areas. The following sections summarize the purpose, funding, and expense detail for each of these.

Forest Conservation, Wildfire, and Watershed Services – 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 service area, 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 service area.

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 retains 12.5 percent of the gross revenues generated in Appomattox, Buckingham, and Cumberland counties to support the enhancement of recreational opportunities on the state forests.

Forestry and Reforestation Incentives – Forestry provides technical assistance, specialized forestry equipment, and forestry services to small timber owners through this service area. Incentive payments provide financial assistance to forest landowners, up to 100 acres per project. General funds and forest product taxes provide the funding for this service area.

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 service area.

FINANCIAL INFORMATION

The schedules below summarize Forestry's budgeted expenses compared with actual results for fiscal years 2009, 2010, and 2011. The difference between final budget and actual was due to timing differences for federal grant expenses.

Forestry expenses consist primarily of personal services, contractual services, and financial assistance and incentives. Forestry also maintains a trust fund to establish, preserve, improve, maintain, develop, and upkeep 400 acres of forested land and structures in Grayson County.

Forestry like many other agencies underwent significant General Fund budget reductions during the period under audit. During this period, Forestry relied on its sales of forestry products, collections for forest fire control and collections for other services all recorded in the Special Revenue fund to cover some of the reductions.. Federal funding also increased period offset some of the reductions, this increase results from a grant for prevention of the Southern Pine Beetle. Timing differences in the federal reimbursement of expenses are the reason for the fluctuation in budgets during the period.

	2009			2010		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$18,604,326	\$16,911,738	\$16,858,156	\$16,311,634	\$14,158,068	\$14,098,573
Special Revenue fund	7,369,386	8,141,133	7,075,633	7,369,386	8,632,494	6,281,864
Trust and Agency fund	100,000	100,000	62,728	100,000	100,000	46,929
Dedicated Special Revenue Fund	145,000	263,469	154,620	211,370	249,010	156,616
Federal fund	<u>2,655,736</u>	<u>6,035,736</u>	<u>4,984,750</u>	<u>4,930,736</u>	<u>4,930,736</u>	<u>4,601,365</u>
Total	<u>\$28,874,448</u>	<u>\$31,452,076</u>	<u>\$29,135,887</u>	<u>\$28,923,126</u>	<u>\$28,320,306</u>	<u>\$25,252,709</u>

	2011		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$13,828,880	\$14,173,185	\$14,166,085
Special Revenue fund	6,819,386	7,325,768	6,738,608
Trust and Agency fund	100,000	100,000	45,283
Dedicated Special Revenue fund	211,370	223,464	136,919
Federal fund	<u>4,930,736</u>	<u>6,250,938</u>	<u>5,183,181</u>
Total	<u>\$25,890,372</u>	<u>\$28,073,355</u>	<u>\$26,270,076</u>



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
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June 20, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Forestry** for the years ending June 30, 2009, 2010, and 2011. 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of Forestry's internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

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 significance and 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 expenses
- Payroll expenses
- Small purchase charge card
- Financial assistance and incentives payments
- Appropriations
- Cash receipting
- Capital assets
- Information System Security

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, and observation of Forestry's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that 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 no matters involving internal control and its operation that we consider necessary to be reported to management. 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 June 27, 2012.

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

AGENCY OFFICIALS

Virginia Department of Forestry

State Forester: Carl Garrison, III

Deputy State Forester: Rob Farrell

Assistant State Forester – Policy, Planning, and Budget: Ron Jenkins