

DEPARTMENT OF FORESTRY

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2008**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Forestry for the two-year period ending June 30, 2008 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Update and Reconcile Construction in Progress Quarterly

Forestry reconciled and certified all amounts in the Commonwealth's Fixed Asset Accounting Control System (FAACS) to the Department of Accounts each month. However, Forestry did not record Construction in Progress (CIP) in FAACS quarterly, which is part of the reconciliation process.

This reporting error resulted in understating CIP by \$211,494 for the first quarter, \$262,561 for the second quarter and \$295,197 for the third quarter of fiscal year 2008; however, Forestry did record all the fiscal year's expenses by year-end.

The Commonwealth Accounting Policies and Procedures clearly requires agencies to record CIP quarterly until the project's completion. Forestry should develop, document, and implement policies and procedures to record and reconcile CIP amounts quarterly in FAACS.

Improve Information Systems Security Program

The Department of Forestry (Forestry) has developed an information systems security program without having a clear understanding of its service agreement with the Virginia Information Technologies Agency (VITA). Without a documented service agreement that clearly states the responsibilities of each party, Forestry cannot develop and maintain an adequate information systems security program that protects its data against unauthorized disclosure, corruption, and inability to recover.

We found that Forestry does not differentiate the responsibilities between itself and VITA for logical and physical access or system and application monitoring in its information systems security program. In addition, while Forestry states in their disaster recovery plan that its service provider has responsibility for data recovery, we found no documentation or agreement between Forestry and VITA outlining these responsibilities. This lack of documentation hinders Forestry from developing a disaster recovery plan they can rely upon in the event of a disaster or equipment failure.

We also found that Forestry has not identified potential vulnerabilities, threats, and the probability of those threats occurring to its applications, as required by the Commonwealth's Security Standard. Without identifying potential vulnerabilities, Forestry cannot implement compensating or mitigating safeguards to properly protect its data.

We recommend that Forestry work together with VITA to document and gain a clear understanding of each other's responsibilities. Once Forestry and VITA have documented these responsibilities, we recommend that Forestry update its information systems security program while considering the latest revision of the Commonwealth's Security Standard.

AGENCY HIGHLIGHTS

Forestry has a central office located in Charlottesville, three regional offices located in Waverly, Farmville, 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 281 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 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 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 2008 and 2007. The difference between final budget and actual expenses in both fiscal years was due to timing differences for federal grant expenses.

	<u>2008</u>			<u>2007</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>
General fund	\$18,274,268	\$19,335,627	\$19,288,099	\$18,301,714	\$18,619,722	\$17,926,897
Special Revenue fund	8,041,675	8,317,347	7,726,337	8,041,675	8,077,082	6,691,297
Trust and Agency fund	-	115,790	72,897	-	20,958	19,071
Dedicated Special Revenue fund	15,000	160,274	111,598	15,000	155,336	85,686
Federal fund	<u>2,178,145</u>	<u>5,569,800</u>	<u>4,869,072</u>	<u>2,178,145</u>	<u>5,453,145</u>	<u>5,089,168</u>
Total	<u>\$28,509,088</u>	<u>\$33,498,838</u>	<u>\$32,068,003</u>	<u>\$28,536,534</u>	<u>\$32,326,243</u>	<u>\$29,812,119</u>

The following schedule summarizes Forestry’s expenses by service area and type for fiscal years 2008 and 2007. The schedule does not include capital outlay expenses of \$4,832,866 in 2008, and \$949,745 in 2007. In both fiscal year 2008 and 2007, these expenses were for construction of a new area office for Grayson and Carroll counties, maintenance projects, and expenses for the acquisition of forest land, including Brumley Mountain State Forest. As shown in the schedule, Forestry Conservation, Wildfire, and Watershed services is Forestry’s largest service area, with the majority being personal services expenses.

Expenses by Service Area
Fiscal Year Ended June 30, 2008

	<u>Forest Conservation, Wildfire, and Watershed Services</u>	<u>Reforestation Operations</u>	<u>Forestry and Reforestation Incentives</u>	<u>Financial Assistance</u>
Personal services	\$16,329,936	\$1,675,284	\$ 527,237	\$ -
Contractual services	4,548,047	291,040	251,639	-
Supplies and materials	1,723,607	521,854	72,433	-
Financial assistance and incentives	574,878	122,834	1,966,827	574,191
Rent, insurance, and utilities	1,818,861	85,782	8,567	-
Property, plant, and equipment	<u>856,899</u>	<u>117,507</u>	<u>579</u>	<u>-</u>
Total	<u>\$25,852,228</u>	<u>\$2,814,301</u>	<u>\$2,827,282</u>	<u>\$574,191</u>

Expenses by Service Area
Fiscal Year Ended June 30, 2007

	Forest Conservation, Wildfire, and Watershed Services	Reforestation Operations	Forestry and Reforestation Incentives	Financial Assistance
Personal services	\$15,096,846	\$1,505,718	\$ 288,130	\$ -
Contractual services	4,156,175	310,213	218,401	12,552
Supplies and Materials	1,860,877	481,922	42,677	22
Financial assistance and incentives	612,778	251,541	1,543,154	718,201
Rent, insurance, and utilities	1,262,070	86,149	5,806	-
Property, plant, and equipment	<u>1,266,362</u>	<u>88,362</u>	<u>4,162</u>	<u>-</u>
Total	<u>\$24,255,108</u>	<u>\$2,723,905</u>	<u>\$2,102,330</u>	<u>\$730,775</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 7, 2009

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

The Honorable M. Kirkland Cox
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, 2008. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of the 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 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
Small purchase charge card
Capital assets
Network 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, observation of Forestry's operations, and inspection of documents, including vouchers, deposit certificates, contracts, board minutes, and 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 certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Forestry has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on April 15, 2009. 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/clj

Carl E. Garrison III
State Forester



COMMONWEALTH of VIRGINIA

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April 20, 2009

Mr. Walter Kucharski
Auditor of Public Accounts
P O Box 1295
Richmond, VA 23218

Dear Mr. Kucharski

The Department of Forestry (DOF) has carefully reviewed your audit report for the two-year period ending June 30, 2008 including the audit findings and recommendations. We concur with your report and have already implemented the corrective action to record construction in progress (CIP) quarterly. The agency will address your other finding to improve our information systems security program by documenting the general understanding DOF has with the Virginia Information Technologies Agency (VITA) for disaster recovery. In this process we will clearly identify the specific roles of VITA and DOF and document the responsibilities of each agency in our Continuity of Operations Plan (COOP).

Please contact our Fiscal Director, Faye DiFazio, or our Assistant State Forester, Ron Jenkins, if you have any questions related to this audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Carl E. Garrison III".

Carl E. Garrison
State Forester

DEPARTMENT OF FORESTRY

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