



VIRGINIA DEPARTMENT OF FORESTRY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia Department of Forestry for the fiscal year ended June 30, 2013, 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 operation 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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AGENCY AND FINANCIAL HIGHLIGHTS

The Virginia Department of Forestry's (Forestry) mission is to protect and develop healthy, sustainable forests for Virginians. They protect 15.8 million acres of forest land in Virginia from fire, insects, and disease. Forestry operates from 34 area offices, five multi-purpose offices, and maintains two nurseries: Augusta Forestry Center in Augusta County and Garland Gray Forestry Center in Grayson County. To achieve their mission, Forestry focuses on four main 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, the 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 in 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.

Forestry receives significant funding from General Fund appropriations, grants from the U.S. Department of Agriculture and Forestry, and special revenue funds derived from nursery sales, land owner assistance, and a forest product tax collected by the Virginia’s Department of Taxation. In 2013 Forestry also received \$9.8 million from a contract with Henrico County for forest mitigation related to Cobbs Creek Reservoir in the state forest of Cumberland County. These funds will be used for the purchase of conservation easements to preserve additional forestland throughout the state. The difference between the final budget and actual expenses in the chart below is due to these funds being held with the Treasurer of Virginia to be expensed in future fiscal years.

Forestry expenses are primarily related to the Forest Conservation, Wildfire, and Watershed Services service area and make up over 77 percent of total expenses. Over all service areas, personal service expenses makes up 62 percent of all expenses, and contractual services make up 14 percent. The schedule below summarizes Forestry’s budgeted expenses by service area compared with actual results for fiscal year 2013. Based on the table below, expenses have exceeded the budget in one service area; however, statewide budget monitoring occurs at the program level, so overages within service areas are permitted as long as the overall program expenses are within budgeted amounts.

Analysis of Budget to Actual Expenses for Fiscal Year 2013			
<u>Service Area</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Forest Conservation, Wildfire and Watershed Services	\$ 21,738,151	\$ 32,632,288	\$ 20,297,608
Tree Restoration and Improvement, Nurseries and State-Owned Forest Lands	2,723,613	3,200,655	2,952,870
Reforestation Incentives to Private Forest Land Owners	2,104,502	2,236,924	2,103,917
Financial Assistance for Forest Land Management	675,000	675,000	690,462
Total	\$ 27,241,266	\$ 38,744,867	\$ 26,044,857



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 14, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Department of Forestry** for the year ended June 30, 2013. 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, and test compliance with applicable laws, regulations, contracts, and grant agreements.

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, regulations, contracts, and grant agreements.

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.

Payroll expenses
Small purchase charge card

Appropriations
Cash receipting
Capital 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, regulations, contracts, and grant agreements. 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 analyses.

Conclusions

We found that the Virginia 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 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, regulations, contracts, and grant agreements 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 May 20, 2014.

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

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Virginia Department of Forestry

State Forester – Bettina K. Ring

Deputy State Forester – Robert W. Farrell

Assistant State Forester, Planning and Budget – Ronald S. Jenkins

Fiscal Director – Faye E. DiFazio

Assistant Fiscal Director – Wanda Colvin