Secretary of State

AUDIT REPORT

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Oregon Parks and Recreation Department: Capital and Non-Capital Assets

Summary

PURPOSE
This audit was conducted to determine whether the Parks and Recreation Department (department) has adequate controls in place over capital and non-capital assets and was compliant with applicable state policies.

RESULTS IN BRIEF
During the audit, we found that the department management did not make accounting for assets a priority and could improve its controls over capital and non-capital assets to ensure that the assets are accurately and properly recorded and asset records comply with state policy.

RECOMMENDATIONS
We recommend the department develop and implement controls over capital assets that are consistent with state policy. In addition, we recommend that the department improve its controls over non-capital assets.

AGENCY RESPONSE
The Parks and Recreation Department generally agrees with the recommendations.

Introduction

The Oregon Parks and Recreation Department (department) was created by legislation in 1990. Prior to that time, the department was a division of the Oregon Department of Transportation.

The department utilizes a large number of capital assets (e.g., buildings, equipment, and vehicles) to manage and operate the state's system of 228 parks and related recreational programs. These parks occupy over 94,000 acres throughout the state and include 52 campgrounds and 171 day-use areas. Department operations are funded primarily by user fees and lottery revenues.

Because of recent changes to accounting standards, the reporting of capital assets and infrastructure, which includes items such as roads and bridges, has become more important. Beginning fiscal year 2002, the state was required to begin reporting infrastructure assets as well as depreciation, which previously had not been required to be reported in the financial statements.

Audit Results

According to state policy, the administrative head of each agency has a responsibility to maintain a system that will assure that the state's property (capital and non-capital) is accounted for and classified properly, accurately, and systematically.[1]

The department has not made accounting for capital and non-capital assets a priority, which has resulted in misstated asset balances and inadequate controls over assets.

Capital Assets Not Accurately Reported

We found that the department should improve its controls over physical inventory to ensure that it is complete, accurate, and complies with state policy. The department maintains a listing of capital assets that separates the department's assets into several categories including historical treasures, buildings, infrastructure, equipment and machinery, and land.

[1] Oregon Accounting Manual Policy Numbers 10.50.00, 15.55.00, 15.60.10 & 15.60.20

We found that the department had not conducted physical inventories on an annual basis. Since the department took over the capital asset accounting function from the Oregon Department of Transportation in July of 1999, the only physical inventory conducted by the department was in April 2002. To ensure that assets are properly accounted for and classified in accounting records, state policy requires assets with an acquisition value greater than $5,000 and a useful life longer than one year to be capitalized, tagged with a State of Oregon identification tag and property control number, listed on the capital asset property inventory, and physically inventoried at least annually.

In addition, we found that the department did not include all assets in the physical inventory, and additions and dispositions noted during the inventory were not investigated or posted to the capital asset listing. Also, employees responsible for performing the inventory had authority to purchase and dispose of state assets. To prevent theft and misuse, inventory responsibilities should be segregated from asset purchasing and asset disposition responsibilities.

We noted the following control weaknesses within the capital asset categories.

Buildings and Equipment

We reviewed a sample of buildings and equipment at three state parks to determine if the capital asset listing was complete and accurate. Although we reviewed many park buildings and pieces of equipment, in some cases we were unable to determine if the assets were accurately included on the capital asset listing, since they were not always uniquely marked with identification tags and control numbers.

Specifically, we noted the following:

- We were unable to positively verify 17 of 24 buildings (71 percent) and 11 of the 23 pieces of equipment (48 percent) selected for testing from the capital assets listing. In some cases, we were unable to verify that the asset reviewed matched the asset on the list because of a lack of identification tags. We also found instances in which assets included on the list were missing, destroyed or had been replaced. For example, we were informed by park management that one of the buildings we could not locate had been destroyed and replaced. In addition to having a destroyed building still on the list, the department had not posted the replacement structure to the list.
- Six of 11 pieces of equipment (55 percent) located at the parks were not found on the capital asset listing.
- We reviewed property disposition forms and found that two previously disposed pieces of equipment were still on the listing of capital assets.

Utilities

The listing of utilities, which are classified as infrastructure assets, did not appear to be complete. According to accounting standards, all utilities purchased by the department since July 1980 should be capitalized by the department. The earliest assets recorded to the utility asset listing were added in 1988.

Land Improvements

The department did not accurately report land improvements in its accounting records. As a result, land improvements are understated.

In 1998, the department contracted with Marion County to perform an inventory of all paved paths and campsites. Based on the inventory, the department estimated that it would cost $150 million to replace these paved areas. We did not find this cost recorded on the property listing.

Land

Not all land was recorded on the listing of capital assets, and other costs were inappropriately capitalized as land assets. We reviewed land acquisitions and dispositions that occurred between July 2001 and May 2003. We found that land assets were understated by approximately $2 million.

Specifically, the understatement included:

- Twelve of 20 (60 percent) land acquisitions were not on the capital asset listing.
- The cost of two land acquisitions was not accurately reported.
- Fees paid for land and rent appraisals were inappropriately capitalized. According to state policy, these fees should not be capitalized because they were not incurred as part of preparing the land for its intended use.

Historical Treasures

The department incorrectly classified and depreciated assets that are historical treasures. State policy states that historical treasures should not be depreciated if they are inexhaustible; that is, their economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.

For example, we found that Fort Stevens State Park is restoring 29 historical assets that were constructed during the Civil War. The department misclassified these assets as buildings rather than historical treasures. As such, the department has been depreciating the historical cost of these assets, which is approximately $285,000.

We recommend that the department establish controls over capital assets and make corrections to asset and accounting records. Specifically, the department should:

- Perform a physical inventory annually and make corrections to the capital asset listing and accounting records based on the inventory results.

Agency's Response:
OPRD agrees with this recommendation and will institute procedures for annual physical inventory no later than August 1, 2003. OPRD estimates completion of first inventory cycle under this new procedure by October 31, 2003.

- Physically mark each capital asset with a unique property number.

Agency's Response:
OPRD agrees with this recommendation and will develop standards for tagging each capital asset with a unique property number. Some assets, such as buildings, utilities or historical treasures are not easily marked with permanent tags. For these types of assets, OPRD will develop a method to identify the location of each

capital asset (e.g., GPS coordinates for buildings.)

- Record the cost of utilities that were acquired before 1988.

Agency's Response:
OPRD agrees with this recommendation. We believe the list is substantially complete but due to changes in accounting systems, original acquisition dates were overwritten. Because most of the accounting records have long ago been purged, the research required to complete this task will be substantial. OPRD does not anticipate the ability to complete this task prior to 2005.

- Research land improvements to determine if the cost of paved walking paths and campsites are recorded.

Agency's Response:
OPRD agrees with this recommendation. We will research the land improvement calculations and entries. If that research finds that part or all of these costs are missing, the Capital Asset Subsidiary System will be corrected and any applicable prior period adjustments will be entered into the Statewide Financial Management Application. Our hope is to have this research completed in time for our 2004 financial statements.

- Perform a complete inventory of all land assets and make corrections based on the inventory. In addition, ensure that all land is properly recorded at cost or the estimated fair market value for donated land, and remove fees that were not incurred when preparing land for its intended purpose.

Agency's Response:
OPRD agrees with this recommendation. Staff are currently working on this task and anticipate corrections to the Capital Asset Subsidiary System by December 2003.

- Review the listing of capital assets to ensure that assets are properly classified.

Agency's Response:
OPRD agrees with this recommendation. Staff are currently working on this task and anticipate all corrections to the Capital Asset Subsidiary System by December 2003.

Accounting Estimates Not Accurate

Infrastructure assets appear to be overstated in the department's asset records. Infrastructure assets are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. As of June 30, 2002, the department's accounting records included an infrastructure balance of $127 million.

Since infrastructure assets were not required to be recorded prior to the accounting standard change in fiscal year 2002, governments were permitted to estimate the cost of infrastructure assets acquired prior to this time. When estimated historical cost is used, state policy indicates that management is responsible for ensuring that estimates are reasonable and supported by adequate documentation.

The methodology used by the department to estimate the cost of roads did not appear to be reasonable. The estimated replacement value of the department's road pavement is $104 million. To determine the estimated historical cost, the current replacement value is discounted to estimate the asset value at the time it was acquired. Assets acquired more recently would be discounted less and thus have a higher value on the department's books.

Because the roads are still in good condition, the department assumed that they were acquired only 10 years ago when computing the estimated cost. Under this assumption, the department calculated the historical cost of the road pavement to be approximately $83 million. In retrospect, the department believes the average age of roads to be much greater than estimated. As a result, these assets were overvalued in the accounting records.

We recommend that the department review its methodologies for estimating the historical cost of road pavement, document its decisions and make accounting adjustments accordingly.

Agency's Response:
OPRD agrees with this recommendation. A capital asset workgroup has been formed to address all issues raised in this report. A subgroup has been identified to study issues related to road pavement. Because of the complexity of the pavement database that was developed for OPRD by Marion County, this work is anticipated to take a considerable amount of time to complete. OPRD does not anticipate being able to complete this task until 2005.

Assets Not Depreciated in Accordance With State Policy

For fiscal year 2002, the department did not record depreciation expense for assets purchased as long ago as 1999. This includes more than 150 assets with an approximate total acquisition value of $12 million. State accounting policies require assets to be depreciated over the asset's estimated length of service.

Not depreciating assets in accordance with the state accounting policy causes asset balances to be overstated and does not adequately report depreciation expense. We were unable to estimate the total dollar effect of not complying with this policy because the department had not assigned estimated useful lives to these assets.

We recommend that the department assign useful lives to all assets and begin depreciating capital assets in accordance with state accounting policies.

Agency's Response:
OPRD agrees with this recommendation. OPRD's 2001-2003 biennium and year-end financial statements will be corrected to reflect appropriate depreciation on all identified assets. Useful lives will be assigned according to OPRD Management Procedure #ACC 5.0. *Also, OPRD will establish a policy that clarifies our depreciation calculations in the years that assets are acquired or sold.*

Fully Depreciated Assets Still In Use

The department uses approximately 900 capital assets that have been fully depreciated and therefore do not have a remaining book value in the accounting records. State policy requires assets to be depreciated over their entire useful lives. Depreciating assets at a faster rate than the asset service life misstates depreciation expense.

We recommend that the department periodically reassess asset useful lives to determine if they are accurate or need to be modified.

Agency's Response:
OPRD agrees with this recommendation and will implement this suggestion formally through its Management Procedures #ACC 5.0.

Reconciliations Not Performed in a Timely Manner

The department has not performed timely capital asset reconciliations between property records and accounting records. State policy requires that these reconciliations be performed each quarter. The most recent reconciliation completed by the department was on June 30, 2001. Internal controls such as reconciliations are important in identifying and resolving potential errors in a timely manner.

We recommend that the department complete quarterly reconciliations between the subsidiary property ledger and accounting records each quarter and that management review these reconciliations to ensure accuracy and completeness.

Agency's Response:
OPRD agrees with this recommendation. Management procedure #ACC 5.0 describes in detail how this will occur. Reconciliation for the fiscal year ending June 30, 2003 shall occur before August 31, 2003 and will be quarterly thereafter.

Non-Capital Assets Capitalized

The department inappropriately capitalized assets that do not meet the state capitalization threshold. State policy requires all assets with an acquisition value greater than $5,000 and a useful life longer than one year to be capitalized.

We found that 1,287 of the department's recorded 3,084 (42 percent) capitalized assets did not meet the state's policy for capitalization. In addition, 269 of the 1,287 (21 percent) assets that do not meet the capitalization threshold had negative acquisition values totaling approximately $22.7 million. The department was unable to determine why assets would have negative acquisition values.

We recommend that the department ensure that only those assets that meet the capitalization criteria are capitalized and investigate and remove assets that do not meet these criteria.

Agency's Response:
OPRD agrees with this recommendation. OPRD's 2001-2003 biennium and year-end financial statements will be corrected to reflect appropriate capitalization of assets. Specifically, improperly classified assets identified in the audit will be corrected immediately. For the future, OPRD will evaluate the asset listing during the quarterly reconciliation to be sure all new assets added to the Capital Asset Subsidiary System meet the criteria for capitalization as described in OPRD Management Procedure #ACC 5.0.

Non-Capital Assets Are Not Adequately Controlled

The department has not created policies to control non-capital assets. State policy requires entities to develop internal controls to protect assets that do not meet the state's capitalization threshold but are susceptible to theft or misuse.

Although the department has a listing of non-capital assets, we found the listing to be out-of-date; no assets had been added to the listing since June 30, 1997. In addition, we found the listing to be inaccurate.

At the three state parks included in our audit, we were unable to positively identify 14 of 21 (67 percent) non-capital assets selected from the listing. In addition, eight of 15 (53 percent) non-capital assets selected for testing at the three state parks were not found on the listing.

In addition, the department has not developed a listing of assets assigned to employees. This listing would help ensure that state assets are returned once an employee terminates employment with the department.

We recommend that the department create and implement a policy identifying and describing how non-capital assets should be controlled and inventoried.

Agency's Response:
OPRD agrees with this recommendation. A policy is being drafted now and will be implemented by October 1, 2003.

We also recommend that the department create and maintain a listing of employees and the state assets assigned to them.

Agency's Response:
OPRD agrees with this recommendation. As soon as the policy described in 7.a. is completed, OPRD will have a coordinated and statewide method of assigning assets listed as high-risk, non-capital assets. The management procedures will clearly describe the methods for assigning the assets and for recovering those assets upon termination by the employee.

Objectives, Scope and Methodology

The objectives of the audit were to determine if department controls over capital and non-capital assets were adequate and determine if the department was compliant with applicable state policies.

To accomplish our audit objective, we:

- Interviewed agency personnel,
- Reviewed relevant state rules and laws,
- Reviewed current department policies and procedures in relation to our audit,
- Reviewed source documentation and accounting records for asset purchases and dispositions, and
- Conducted physical inventories of a randomly-selected sample of assets at Champoeg, Silver Falls and Fort Stevens state parks.

Fieldwork was conducted February through May 2003. We performed our audit in accordance with generally accepted government auditing standards.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us *and* http://www.sos.state.or.us/audits/audithp.htm.

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The courtesies and cooperation extended by the officials and staff of the Oregon Parks and Recreation Department were commendable and much appreciated.

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