

Secretary of State AUDIT REPORT

Report No. 2003-28 • August 5, 2003

Oregon Department of Forestry: Capital and Non-Capital Assets



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Cathy Pollino, Director, Audits Division

Summary

PURPOSE

This audit was conducted to determine whether the Department of Forestry (department) has adequate controls in place over capital and non-capital assets, and if it has complied with state policy.

RESULTS IN BRIEF

Overall, we found that the department had controls in place over capital and non-capital assets to ensure that the assets are accurately and properly recorded, and asset records are in compliance with state policy. We found, however, that the department's bridges were undervalued by approximately \$122,800 because the department did not use a consistent methodology when applying accounting estimates. We noted that the department could improve its policies over useful life estimates and non-capital assets.

We also identified other issues of lesser significance that did not warrant reporting in the audit report. These issues were

conveyed to the department in Management Letter No. 629-2003-07-01.

RECOMMENDATIONS

We recommend that the department:

- Consistently apply methodologies for estimating the cost of bridges;
- Periodically reevaluate asset useful life estimates to determine appropriateness; and
- Improve and enforce non-capital asset policies.

AGENCY'S RESPONSE

The Oregon Department of Forestry generally concurs with the findings of the audit, and agrees with the recommendations.

Introduction

The Oregon Department of Forestry (department) is headquartered in Salem with 35 additional offices located throughout the state. The department's mission is "to serve the people of Oregon through the protection, management, and promotion of a healthy forest environment, which will enhance Oregon's livability and economy today and tomorrow." To fulfill its mission, the department's duties range from fire protection to overseeing forest products and reforestation practices.

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. The department is now required to report infrastructure assets as well as depreciation, which previously had not been required to be reported in the financial statements.

Audit Results

We found that the department is generally complying with state policy over capital assets.¹ Specifically, we found that the department has controls in place to ensure:

- Adequate segregation of duties over capital asset accounting;
- Reconciliations between the financial accounting system and subsidiary property ledgers are performed quarterly;
- Physical inventories are performed annually; and
- Assets are labeled with property tags and control numbers.

We did identify areas of improvement, however, which are discussed below.

¹ Oregon Accounting Manual Policy Numbers 10.50.00, 10.55.00, 15.55.00, 15.60.10 and 15.60.20

Methodologies to Estimate Bridge Costs Not Consistently Applied

We found that the cost of 12 of the department's 159 (8 percent) bridges was not derived using developed methodologies.

New accounting principles implemented by the state in fiscal year 2002 required the department to begin reporting the cost of bridges and other infrastructure assets in the financial statements. Because the actual cost of bridges could not be easily identified, the department appropriately developed methodologies to estimate bridge costs. Inconsistently applying the methodology resulted in bridge assets being undervalued by approximately \$122,800 in the accounting records.

We recommend that the department recalculate the value of bridges using a consistent formula

and make adjustments to asset and depreciation balances accordingly.

Agency's Response:

We agree with the finding and recommendation generally.

The method used to value all the bridges for which there was no actual cost or limited actual cost information were valued using an estimated value of \$1,500.00 per foot of constructed length plus \$5,000.00 per bridge for engineering and design. This formula was not used on bridges from one district. The bridges that used a different value per foot have been corrected using the same value as all other bridges in the department.

For bridges that were valued using actual costs, we will leave as they are, and in the future we will be using this method to value all of our bridges. This is the preferred valuation method for the department. Anticipated Completion Date: October 31, 2003.

Fully Depreciated Assets Still in Use

The department is using capital assets that have been fully depreciated and do not have a remaining book value. Generally accepted accounting principles require assets to be depreciated over their entire useful lives.

We found that 540 of the department's 1,371 (39 percent) assets are fully depreciated. Depreciating assets at a faster rate than the asset service life misstates depreciation and asset values reported in the financial statements.

We recommend that the department periodically reevaluate capital asset useful lives to determine if modification is necessary.

Agency's Response:

We agree with the finding and recommendation generally.

The method used to determine the useful life of the department's assets was based on processes used by other agencies at the time, Internal Revenue Service (IRS) rules for asset depreciation, and Oregon Accounting Manual (OAM) recommendations. As a department, we will look at the useful life of our assets on a yearly basis. We will determine if assets are being used for a longer time than established and, if necessary, adjust the useful life to reflect actual usage for similar assets. As part of this assessment we will query other state agencies with similar properties to determine what criteria they are using for their valuations. Anticipated Completion Date: October 31, 2003.

Non-Capital Asset Policies Incomplete and Not Enforced

We reviewed the department's draft non-capital asset policy and found that it does not specifically stipulate which assets should be recorded on the listing of non-capital assets. We found items that did not appear necessary to inventory during our review of non-capital assets. For example, supplies such as toilet paper were included on one listing.

In addition, we reviewed non-capital asset databases at three department offices and found that one office did not complete annual physical inventories of non-capital assets. At the location that did not complete the annual inventory, we were unable to locate two of five assets (40 percent) selected for testing. 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. To fulfill this requirement, the department created a policy requiring annual inventories of non-capital assets. Assets cannot be adequately monitored if they are not regularly inventoried.

We recommend that the department develop a policy that addresses which assets should be included on the non-capital asset database.

Agency's Response:

The department agrees with the finding and recommendation.

As noted in the audit report, the Support Services Unit of the Business Service Section is in the process of updating the Property Control Administrative Manual direction and will incorporate the definition and parameters of which assets should be recorded within the non-capital asset system. Anticipated Completion Date: October 31, 2003.

We also recommend that the department enforce its policy requiring annual inventories of non-capital assets.

Agency's Response:

The department agrees with the finding and recommendation.

The department currently processes and updates the restoration report annually in order to provide information to the Department of Administrative Services (DAS) Risk Management Division in the calculation of their annual risk charges. During this process, the department requires each Program and Field office to conduct an annual inventory of their non-capital assets and provide us with a new report. The department also conducts a touch inventory on a biennial basis, during which a random ten percent sample of non-capital asset inventory is conducted. The department will incorporate additional language within the agency's Administrative Manual that requires a supervisory signature with the report when submitted, acknowledging the annual inventory was conducted, and the status of any discrepancies. Anticipated Completion Date: October 31, 2003.

Employee Assigned Assets

Prior to our audit, the department did not track assets assigned to each employee responsible for the equipment. The department is in the process of creating this listing. A listing of assets assigned to employees will insure that assets are returned once an employee leaves employment with the department.

We recommend that the department continue the process of creating a list of employees and the assets assigned to them.

Agency's Response:

The department agrees with the recommendation.

During the restoration reporting for FY03 (July 2002), the department property control staff distributed the new OAM 10.55.00.PO as an awareness to get the department prepared for the new requirements. In March of 2003, the department property control staff distributed the new policy and tracking procedures to all programs and field offices with a completion date of May 15, 2003. The department will continue its process of enforcing this procedure by incorporating a process within its touch inventory to conduct inventory checks on employee assigned assets. Anticipated Completion Date: March 31, 2004.

Objectives, Scope and Methodology

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

To accomplish our audit objectives, we:

- Interviewed agency personnel;
- Reviewed relevant state rules;
- 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 three Forestry offices.

Fieldwork was conducted February through May 2003. We conducted 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 Department of Forestry were commendable and much appreciated.

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