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Secretary of State Audit Report

Bill Bradbury, Secretary of State

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Oregon Department of Fish and Wildlife: Audit of Capital and Non-Capital Assets

Summary

PURPOSE

This audit was conducted to determine whether the Department of Fish and Wildlife (department) has adequate controls in place over capital and non-capital assets and whether the department is compliant with state policy.

RESULTS IN BRIEF

Overall, we found that the department has controls in place over capital and non-capital assets to ensure that the assets are accurately and properly recorded in compliance with state policies. However, we did identify areas for improvement.

RECOMMENDATIONS

We recommend that the department:

- Evaluate asset useful life estimates and salvage value calculations for appropriateness;
- Ensure that depreciation is calculated for all depreciable assets;
- Record the location of each asset on the property ledger to facilitate the physical inventory;
- Ensure that disposals are processed in compliance with state policies;
- Adjust the accounting records to properly capitalize the cost of a land improvement asset that was expensed; and
- Ensure that current policies regarding approval authority for capital asset purchases are followed.

AGENCY'S RESPONSE

The Oregon Department of Fish and Wildlife generally agrees with the recommendations.

Introduction

The Oregon Department of Fish and Wildlife (department) is headquartered in Salem with 26 district and field offices as well as numerous research, hatchery, and wildlife areas located throughout the state. The department's mission is "to protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations". To fulfill its mission, the department's duties include raising fish in hatcheries, working to improve animal habitats, and regulating the harvest of game animals.

Because of recent changes to accounting standards, the reporting of capital assets and infrastructure has become more important. The department is now required to record in its accounting records all capital assets (i.e. property with a cost greater than $5,000 and a useful life of more than one year) including infrastructure, and related depreciation expense. As of June 30, 2003, the department reported $132 million in capital assets net of related depreciation.

Audit Results

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

- Capital asset accounting includes adequate segregation of duties;
- Capital assets and high risk non-capital assets are labeled with property tags and control numbers;
- Reconciliations between the financial accounting system and subsidiary property ledgers are performed on a monthly basis;
- Physical inventories are performed annually; and
- Capital assets, including infrastructure, are depreciated using the straight-line method.

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

Depreciable Lives Appear Excessive

The department is using depreciable lives that are significantly longer than those recommended by state policy. The department selected lives that would prevent any asset currently in use from being recorded as fully depreciated when accumulated depreciation was originally calculated at June 30, 2002.

The depreciable lives currently in use do not reflect how long each asset can be expected to meet service demands. This causes depreciation expense and accumulated depreciation to be understated and net book value of assets to be overstated.

We recommend the department use a life for each asset that reflects the actual useful life of the asset.

Agency's Response:

The Department generally agrees with the recommendation. Currently, the department has a number of assets that exceed the recommended useful life by state policy. The department will review the useful lives of its assets and what measures can be implemented to better reflect the actual useful life of the asset.

Policy for Salvage Value of Assets Could Be Improved

The department calculates salvage value at 0.5 percent of acquisition cost for depreciable capital assets and 100 percent of acquisition cost for non-depreciable capital assets. The nature of depreciable property is not taken into consideration when salvage value is determined.

State policy suggests salvage values of 10 to 20 percent of asset cost for depreciable capital assets, and allows estimated salvage values under 10 percent to be ignored.[1] The use of small salvage value (0.5 percent) applied generically to all capital assets does not increase the accuracy of asset valuation but does increase time spent processing depreciation. Also, as salvage value is required only for calculating depreciation, the use of salvage values for non-depreciable assets provides no value while increasing processing time.

We recommend the department:

- Consider using salvage values based on the estimated residual value of specific assets;
- Consider not using salvage values if the estimated residual value is less than 10 percent of asset acquisition cost; and
- Not use salvage values for non-depreciable assets such as land.

Agency's Response:

We agree with the recommendation. The Department will evaluate the salvage value assigned to assets and remove the salvage values for non-depreciable assets.

Depreciation Not Calculated On All Capital Assets

State policy requires that capital assets be depreciated over their estimated useful lives, unless they are considered inexhaustible. We found 26 personal property assets for which $1,726 and $5,591 of depreciation had not been recorded for the years ended June 30, 2002 and 2003, respectively. These assets had not been assigned useful lives.

The department calculates depreciation in three steps. The first step assigns a useful life to each new asset, the second calculates the salvage value, and the third calculates the depreciation. Due to the large size of the database, caused by the department maintaining disposed assets in the records, the depreciation calculation is performed only once each year. If assets are added to the database after the assignment of useful lives and before the calculation of depreciation, the result is that no depreciation is calculated for those assets.

The department's database would be more manageable if disposed assets were removed in a timely manner. State policy allows property to be removed from subsidiary records after the agency has been notified that the property has been sold or disposed of by the state surplus property program.

We recommend the department:

- Record the depreciation related to these assets;
- Verify that all assets have a life in the calculated life field prior to calculating depreciation; and
- Facilitate the calculation of depreciation by deleting property after receiving notification that the property has been sold or disposed of by the state surplus property program.

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

Agency's Response:

We agree with the recommendation. The Department will record the depreciation related to the identified assets. The Department will verify that all assets have a useful life prior to calculating salvage value or depreciation. We will reevaluate the current database structure being used.

Accumulated Depreciation Not Recorded

We found that 10 of the 27 buildings and two of the 24 infrastructure assets tested were recorded by prior period adjustment. The department identified assets that had not been properly capitalized, and adjusted the accounting records for only the cost of these assets and not the related depreciation. State policy requires capital assets to be depreciated over their estimated useful lives.

Accumulated depreciation for all buildings and infrastructure is estimated to be understated by approximately $90,000 as of June 30, 2003.

We recommend the department calculate and include depreciation in prior period adjustments to record assets.

Agency's Response:

We agree with the recommendation. The non-recording of depreciation for prior period adjustments was an oversight by the Department. We will correct and improve the process for recording depreciation.

Asset Not Located

State policy requires agencies to conduct annual inventories to physically verify all items listed on the subsidiary property records. State policy also requires agency management to ensure that internal controls are sufficient to provide reasonable assurance that state assets are not lost or stolen.

Of the 34 assets selected from the personal property ledger to be physically verified, the department could not locate one $6,000 display case.

Each division or location within the department assigns an employee to be responsible for the annual physical inventory. The assigned employee for the division having custody of the display case is no longer with the department. The division manager was unable to locate the asset. Assets not adequately tracked may be misappropriated.

We recommend the department record the location of each asset on the property ledger to facilitate the physical inventory.

Agency's Response:

We generally agree with the recommendation. Assets are designated and tracked by region, watershed, program, and station. However, in an effort to reduce costs, a number of assets are shared and utilized by various programs and locations.

Property Disposition Request Forms Not Properly Completed

We found the preparer did not sign three of the 22 (14 percent) property disposition requests (PDRs) selected for testing. In addition, the approver did not sign six (27 percent) of the PDRs.

State policy requires all surplus property to be disposed of in accordance with Department of Administrative Services policies using a PDR form. Incomplete forms may allow property to be disposed of inappropriately.

We recommend the department comply with state policies in the disposal of surplus assets by fully completing the property disposition request forms.

Agency's Response:

We agree with the recommendation. The Department is currently updating the internal policy and is reviewing and verifying that property disposition request forms are filled out correctly and that staff are properly trained.

Land Improvement Not Recorded at Cost

State policy requires assets with a cost of $5,000 or more and a useful life of at least one year to be capitalized and reported in the agency's accounting records. The department did not follow state or agency policy in recording land improvements.

A fishway with a construction cost of $8,000 was incorrectly recorded on the books with no cost. Based on the error rate in our sample, we estimate that land and land improvements may be understated by approximately $272,000. This represents less than 1 percent of the value of these assets.

We recommend the department make the adjustment necessary to record the cost of the fishway.

We also recommend the department ensure current capitalization policies are followed.

Agency's Response:

We agree with the recommendation. The Department will make the necessary adjustments to record the cost of the fishway. We have implemented steps to verify that all assets have a valid and appropriate cost associated with them.

Capital Asset Purchase Not Properly Approved

We found that one manager had authorized a purchase totaling $7,027, which exceeded his $5,000 approval limit. The department maintains a list of employees who are responsible for authorizing department purchases. This list includes the maximum purchase limit of each authorized staff member.

The department has not implemented adequate controls to ensure that capital asset purchases comply with departmental policies. This could allow inap-

Audit Results (continued)

propriate purchasing decisions to be made.

We recommend the department ensure that current policies regarding approval authority for capital asset purchases are followed.

Agency's Response:

We agree with the recommendation. In addition to the hardcopy forms maintained on file, the Department has created and implemented an online database program to provide further oversight of individual employee approval limits.

The Oregon Department of Fish and Wildlife has already implemented a number of the recommendations contained in the audit report and will continue to work with the Division's to help strengthen our internal controls.

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 two department locations.

Fieldwork was conducted February through April 2004. We conducted our audit in accordance with generally accepted government auditing standards.

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The courtesies and cooperation extended by the officials and staff of all the agencies audited were commendable and much appreciated.

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