



Secretary of State Audit Report

Oregon Parks and Recreation Department: Follow-Up Report on Capital and Non-Capital Assets

Summary

PURPOSE

The purpose of this audit was to determine whether the Oregon Parks and Recreation Department (department) had implemented 13 recommendations made in an earlier audit report, *Oregon Parks and Recreation Department: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2003-26). The previous audit was conducted to determine whether the department had adequate controls in place over capital and non-capital assets and complied with applicable state policies.

BACKGROUND

In October 2005, the department began development of a web based facility maintenance management system named HUB. HUB was designed to merge several independent databases into one location and improve the department's maintenance and management of its facilities and infrastructure. When fully implemented, HUB will allow department staff to access and update information through a centralized system. Implementation began in January 2007 and is expected to be completed by August 2008.

Because HUB was not fully implemented at the time of our follow-up audit, we reviewed information from the department's previous asset management systems.

RESULTS IN BRIEF

The department has made some improvements in controls over capital and non-capital assets to help ensure state assets are accurately and properly recorded and asset records comply with state policy. Of 13 prior audit recommendations, three were implemented, three were partially implemented, six were not implemented, and one was deemed no longer relevant.

RECOMMENDATIONS

We recommend department management implement the recommendations of the previous audit that are still applicable but were not fully addressed. Specifically, we recommend the department:

- Perform an annual physical inventory of all capital assets.
- Record the historical costs of paved walking paths and campsites.
- Perform a complete inventory of land assets and record values for donated land.
- Evaluate buildings classified as potential historical treasures and correct the capital asset subsidiary ledger, as appropriate.
- Review methodologies for estimating the historical cost of road pavement.
- Review the buildings and machinery and equipment subsidiary ledgers for fully depreciated assets still in use.
- Document quarterly reconciliations of the capital asset subsidiary ledgers to accounting records.
- Ensure that only assets meeting the capitalization criteria are capitalized.
- Strengthen controls over non-capital assets to ensure that high-risk items are controlled and accounted for.

AGENCY'S RESPONSE

The Oregon Parks and Recreation Department generally agrees with the recommendations.

Background

The Oregon Parks and Recreation Department (department) was established in 1921 as a branch of the Highway Department. The 1989 Legislature created a separate Parks and Recreation Department, effective in 1990.

The department utilizes a large number of capital assets (e.g., buildings, equipment and vehicles) to manage and operate the state's system of 230 recreational properties. The department manages over 98,000 acres, including 55 campgrounds and 174 day-use areas.

Department activities are funded primarily by state park user fees, Oregon Lottery dollars, and recreational vehicle license fees.

In October 2005, the department began development of a web based facility maintenance management system named HUB. HUB was designed to merge several independent databases into one location and improve the department's maintenance and management of its facilities and infrastructure. HUB houses an inventory of department facilities along with a maintenance and repair log and schedule. It provides functions for maintaining pertinent summary information, photographs, and copies of associated documents for each asset. HUB screens allow field users to communicate with department headquarters when an asset is added or disposed of. HUB has sorting functions that allow users to view each asset by category or location (parks).

When fully implemented, HUB will allow department staff to access and update information through a centralized system. Implementation began in January 2007 and is expected to be completed by August 2008.

Because HUB was not fully implemented at the time of our follow-up audit, we reviewed information from the department's

previous asset management systems.

Audit Results

The administrative head of each agency has a responsibility to maintain a system of controls that will assure state property (capital and non-capital) is accounted for and classified properly, accurately and systematically.¹

The department has made some improvements in controls over capital and non-capital assets to help ensure the department's assets are accurately and properly recorded and asset records comply with state policy. Of 13 recommendations made in *Oregon Parks and Recreation Department: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2003-26), three were implemented, three were partially implemented, six were not implemented, and one was deemed no longer relevant.

Status of Prior Audit Findings

This section summarizes the department's progress in implementing recommendations of the previous audit. We have listed the findings and recommendations according to their presentation in the prior audit report.

Capital Assets Not Accurately Recorded

Prior Finding: The department needed to improve controls over physical inventory to ensure that inventory is complete, accurate and in compliance with state policy. The department had not conducted a physical inventory since April 2002.

Prior Recommendation: Perform a physical inventory annually and make corrections to

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

the capital asset listing and accounting records based on the inventory results.

Status: Not Implemented. We reviewed the department's inventory schedule from 2003 to 2007. Although the department conducted a physical inventory for some of its parks during this period, it did not conduct a complete inventory on an annual basis.

Prior Finding: Not all assets on the department's building and equipment listings were uniquely marked with identification tags and control numbers. Therefore, it was not clear whether assets were accurately recorded in the capital assets listing.

Prior Recommendation: Physically mark each capital asset with a unique property number.

Status: Implemented. We reviewed the buildings and equipment/machinery subsidiary ledgers to determine if improvements had been made to uniquely identify capital assets. The department made improvements in assigning assets a unique property number. Fewer than 5 percent of 2,223 listed assets had not been assigned a unique identifier.

Prior Finding: The department's listing of utilities 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.

Prior Recommendation: Record the cost of utilities that were acquired before 1988.

Status: No Longer Relevant. We reviewed the department's subsidiary ledger of utilities and

did not see any assets with purchase dates prior to 1988. According to department management, there was a conversion to a new accounting system in 1985 when the department was a division of the Oregon Department of Transportation. During the conversion, the acquisition dates of the utilities were overwritten. Therefore, since the dates prior to 1988 cannot be recovered and management expects to identify any errors or omissions during their annual inventory, we consider this finding no longer relevant.

Prior Finding: The department did not accurately report all land improvements in its accounting records. Based on a 1998 inventory of paved paths and campsites, the department estimated it would cost \$150 million to replace these paved areas. This cost was not recorded on the property listing. As a result, land improvements were understated.

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

Status: Not Implemented. Accounting standards allow governments to estimate the historical cost of their infrastructure assets by calculating the current replacement cost and deflating this cost through the use of price-level indexes. We found the department had not yet researched and recorded an estimate of historical costs for paved walking paths and campsites.

Prior Finding: Not all land was recorded on the listing of capital assets. Moreover, other costs were inappropriately capitalized as land assets.

Prior Recommendation: 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. Finally, remove fees that were not associated with preparing the land for its intended purpose.

Status: Partially Implemented. The department had adjusted its land inventory records to remove inappropriate fees identified in the previous audit. However, the department had not performed a complete inventory of land assets, and had not valued all land assets. Specifically, we identified 192 land assets classified as donated that had no value assigned.

Prior Finding: The department incorrectly classified and depreciated assets that were historical treasures.

Prior Recommendation: Review the listing of capital assets to ensure that assets are properly classified.

Status: Partially Implemented. The previous audit identified 117 assets that were inappropriately classified as buildings instead of historical treasures. We reviewed updated documentation and determined the department had properly reclassified these assets as historical treasures.

The previous audit also identified 63 assets classified as buildings, but noted as “potential” historical treasures. During our audit, the department reclassified eight of these assets as historical treasures, and determined 10 were actually improvements to existing assets. The remaining 45 assets, however, still needed to be evaluated.

Accounting Estimates Not Accurate

Prior Finding: Infrastructure assets, consisting mainly of paved roads, appeared to be overstated in the department’s asset records. Infrastructure assets are defined as long-lived capital assets that normally can be preserved for a number of years significantly greater than most capital assets.

A change in accounting standards permitted governments to estimate the cost of infrastructure assets acquired prior to fiscal year 2002. The methodologies used by the department to estimate the cost of roads did not appear reasonable.

Prior Recommendation: Review methodologies for estimating the historical cost of road pavement, document decisions, and make accounting adjustments accordingly.

Status: Not Implemented. According to department management, the department has not yet reviewed methodologies for estimating the historical cost of road pavement and, therefore, had not made any accounting adjustments.

Assets Not Depreciated in Accordance With State Policy

Prior Finding: For fiscal year 2002, the department did not record depreciation expense for assets purchased as long ago as 1999. We had identified more than 150 such assets with an approximate total acquisition cost of \$12 million.

State accounting policies require capital 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 could not estimate how much depreciation expense should have been recorded because the department had not assigned estimated useful lives to these assets.

Prior Recommendation: Assign useful lives to all capital assets and begin depreciating those assets in accordance with state accounting policies.

Status: Implemented. We selected a sample of 40 assets identified in the prior audit that had not been assigned a useful life and depreciated. Based on our review of the department's subsidiary ledger, the department had assigned a useful life to these assets and had begun depreciating them.

Fully Depreciated Assets Still in Use

Prior Finding: The department was continuing to use approximately 900 capital assets that had been fully depreciated according to its accounting records.

Recommendation: Periodically reassess assets' useful lives to determine if they are accurate or need to be modified.

Status: Not Implemented. According to the department's capital asset policy, the department updated the policy and reassessed the useful lives of various asset categories in June 2005 and again in March 2007.

Although the department updated their policy regarding the useful lives of capital assets, our testing identified assets on the subsidiary ledgers that were fully depreciated and still in use.

Specifically, the buildings subsidiary ledger listed 1,002 of 1,822 (55 percent) assets as fully depreciated that were still in use. We also reviewed the equipment and machinery subsidiary ledger and noted that 167 of 401

(42 percent) assets were fully depreciated and still in use. Purchase dates of the assets considered ranged from 1919 to 2001.

Reconciliations Not Performed in a Timely Manner

Prior Finding: The department had not performed timely reconciliations between capital asset property records and accounting records. State policy requires that these reconciliations be performed quarterly.

Prior Recommendation: Complete quarterly reconciliations of the subsidiary property ledger to accounting records, and ensure that management reviews these reconciliations for accuracy and completeness.

Status: Not Implemented. Department management stated that staff performed quarterly reconciliations but did not retain documentation of the reconciliations. As a result, we could not determine whether the reconciliations had been performed.

Non-Capital Assets Capitalized

Prior Finding: 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.

Prior Recommendation: Ensure that only those assets that meet the capitalization criteria are capitalized. Investigate and remove assets that do not meet these criteria.

Status: Not Implemented. We reviewed the department's 2007

building subsidiary ledger and found that 748 of the 1,822 (41 percent) assets, totaling approximately \$1.2 million, were valued below the \$5,000 capitalization threshold.

Non-Capital Assets Are Not Adequately Controlled

Prior Finding: The department had 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.

In addition, the department's listing of non-capital assets was not current because no assets had been added to the listing since June 30, 1997. Furthermore, we found the listing to be inaccurate.

Prior Recommendation: Create and implement a policy identifying and describing how non-capital assets should be controlled and inventoried.

Status: Partially Implemented. The department adopted procedures in December 2003 describing how non-capital assets would be controlled and inventoried. The procedures were revised in March 2007.

We reviewed subsidiary ledgers of computer equipment for three field locations and determined that purchases made after 1997 had been added to the non-capital asset subsidiary ledger.

We traced 64 assets from the subsidiary ledgers to their physical location. Included in our tests were items such as computer equipment, mowers and electric carts. Finally, we selected six assets at the field locations and traced them to the subsidiary ledgers.

Based on our review, we determined the department could make further improvements to control and account for non-capital

assets. For example, five assets recorded in the subsidiary ledgers could not be located at the field locations. Furthermore, department management could not locate the assets elsewhere, nor provide documentation that showed those assets had been discarded.

We also determined that four of the six assets selected at the field locations were not recorded in the subsidiary ledgers.

Prior Finding: The department had not developed a listing of assets assigned to employees. This listing would help ensure that all state assets are returned once an employee terminates employment with the department.

Prior Recommendation: Create and maintain a listing of employees and the state assets assigned to them.

Status: Implemented. The department's procedures for controlling and inventorying non-capital assets included an element for assets assigned to individual employees. The procedures indicate the department will inventory property assigned to employees and note the asset categories to be tracked.

The department also developed "Equipment Issue Agreements" that list assets assigned to an employee and require employee signatures.

We obtained subsidiary ledgers for cell phones assigned to individuals at three field locations and traced 11 cell phones from the list to their physical location. We also examined the Equipment Issue Agreements for the individuals to whom the cell phones were assigned to determine whether the cell phones had been listed in the agreements. We found no exceptions in either test.

Current Recommendations

Based on the findings of this follow-up report, the applicable previous recommendations are somewhat revised. To address the issues that still exist, we recommend department management:

- Perform an annual physical inventory of all capital assets and correct the capital asset listing and accounting records, as appropriate, based on the inventory results.

Agency's Response:

OPRD agreed to institute procedures for annual physical inventories no later than August 1, 2003, with an estimated completion of the first inventory cycle by October 31, 2003. The inventory process was initiated as estimated. Part of the HUB implementation included the entry of all field capital and non-capital assets by location including images of the assets where applicable. The HUB will be used to capture and maintain the physical inventory and will include an inventory schedule by park location. The annual inventories will be conducted during October – November with the completed inventory list due to Accounting in December 2008.

- Record an estimate of historical costs for paved walking paths and campsites in the capital asset subsidiary ledger and accounting records.

Agency's Response:

The HUB is being utilized to mitigate this finding. In combination with the financial information, the actual measurement of all paved paths, campsites, parking lots, including the type of pavement, is currently being entered into the HUB. The HUB will also be used as a pavement management system for future projects and provide historical costs.

- Perform a complete inventory of land assets and make corrections based on inventory results. In addition, ensure that all donated land is recorded at estimated fair market value.

Agency's Response:

With the implementation of the HUB, OPRD is currently completing an inventory of all land assets. All deeds have been scanned into the HUB. Accounting is in the process of entering financial information and reconciling the HUB with the previous ledger that has been used. Accounting procedures have been implemented to ensure all subsequent land transactions, monetary or non-monetary, are recorded at the appropriate value. However, research for the historical donated land will need to be completed within the next year to determine the value of the land at the time of donation.

- Complete the evaluation of buildings classified as "potential" historical treasures and correct the capital asset subsidiary ledger, as appropriate, to ensure assets are properly classified.

Agency's Response:

OPRD reviewed and entered the listing of capital assets into the HUB. Of the 117 capital assets identified in the audit, all have been evaluated and properly reclassified. All known errors have been reviewed and properly classified.

- Review methodologies for estimating the historical cost of road pavement, document decisions made, and make accounting adjustments accordingly.

Agency's Response:

Infrastructure assets are currently being entered into the HUB with the historical financial information included. Over the next

year, the accounting department, in conjunction with engineering, will review and adjust the methodology and life expectancy of infrastructure assets.

- Review the buildings and machinery and equipment subsidiary ledgers for fully depreciated assets still in use. Apply the revised useful lives of those assets per the department's policy and make corrections to the ledgers, accordingly. In addition, make necessary adjustments to depreciation expense.

Agency's Response:

OPRD will periodically reassess and document asset useful lives to determine if they are accurate or need to be modified. We have formally implemented this suggestion through agency policy and will continue this assessment on a continual ongoing basis.

- Document quarterly reconciliations of the subsidiary property ledger to accounting records, and ensure management reviews the reconciliations for accuracy and completeness.

Agency's Response:

OPRD is completing quarterly reconciliations. Documented OPRD Management Procedure #ACC 5.0 describes in detail the agency process to complete quarterly reconciliations between the subsidiary property ledger and accounting records. Monthly repository reports are generated to assist in the reconciliation. Documentation is retained with the accountant and reviewed and signed by the accounting manager.

- Ensure that only assets meeting the capitalization criteria are capitalized. Investigate discrepancies in the capital asset subsidiary ledgers and remove assets not meeting those criteria.

Agency's Response:

OPRD Management Procedure #ACC 5.0 describes the criteria for capitalization. The HUB will help mitigate the total project cost. FMS will link with the HUB to show all project specific expenditures to easily identify charges that should not be capitalized. OPRD will also evaluate the assets added to the Capital Asset Subsidiary System through the current quarterly reconciliation process.

- Strengthen controls over non-capital assets to ensure that high-risk items are controlled and accounted for.

Agency's Response:

Policy is currently being revised and reviewed by management to add language describing how non-capital assets should be controlled and physically inventoried. Semi-annual inventories will be completed; one at the beginning of the season (April) and a follow-up in October due to Accounting in June and December 2008, respectively. The December inventory will include the capital asset inventory. Non-Capital assets will be entered into the HUB where a report will be generated for park field staff to print and utilize for completion of the physical inventory. The HUB will enable OPRD to schedule the inventory on a project calendar for each park location.

Objectives, Scope and Methodology

The objective of this audit was to determine if the department had implemented 13 recommendations made in an earlier audit report, *Oregon Parks and Recreation Department: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2003-26).

To accomplish our audit objective, we performed the following procedures:

- interviewed department personnel;
- reviewed current department policies and procedures relating to the control and processing of capital and non-capital assets and related records;
- reviewed relevant state policies, rules and laws;
- reviewed accounting records and supporting documentation for asset purchases and dispositions;
- examined capital asset subsidiary ledgers for land, buildings, and equipment and machinery;
- traced a sample of non-capital assets from the department's subsidiary ledgers to their physical location; and
- traced selected non-capital assets from three field locations to the department's subsidiary ledgers.

We conducted our fieldwork from February through September 2007. We performed our audit in accordance with generally accepted government auditing standards.



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

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained:

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