Report No. 2008-34

November 20, 2008

Oregon Department of Fish and Wildlife: Follow-Up Report on Capital and Non-Capital Assets

Secretary of State Audit Report

Bill Bradbury, Secretary of State

Charles A. Hibner, Director, Audits Division

Summary

PURPOSE

The purpose of this audit was to determine whether the Oregon Department of Fish and Wildlife (department) had implemented nine recommendations made in a prior audit report, *Oregon Department of Fish and Wildlife: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2004-26). 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.

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. However, the department could further improve controls. Of nine prior audit recommendations, four were implemented, four were not implemented, and one was considered no longer relevant. In addition, we found that the department was incorrectly calculating depreciation for several assets and not recording and depreciating all federally-funded assets in accordance with generally accepted government accounting standards.

RECOMMENDATIONS

We recommend department management implement the four remaining recommendations of the previous audit that are still applicable. We also recommend that management implement the following:

- correct the department's accounting records to address the identified overstatements in accumulated depreciation and depreciation expense;
- review the formula used for calculating depreciation, and ensure assets are depreciated correctly;
- review the federally-funded/owned assets, and ensure all are recorded in the state accounting system in accordance with government accounting standards and depreciated, as appropriate;
- locate the 19 assets that could not be found during our testing;
- ensure adherence with the inventory process to verify that proper procedures are followed for asset disposals;
- comply with state policy and ensure that a Property Disposition Request form is prepared for each disposed asset and is properly approved by management;
- ensure the status and the Property Disposition Request form number is appropriately reflected for each asset in the property ledgers;
- review the process for managing the Property Disposition Request forms and design a method for cross-referencing the requests to the related inactive asset in the property ledgers;
- record the cost of the fishway;
- ensure compliance with state capitalization policies; and
- ensure compliance with department policies regarding approval authority for capital assets purchases.

AGENCY'S RESPONSE

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

Background

The mission of the Oregon Department of Fish and Wildlife (department) is to protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations. The department is headquartered in Salem with regional offices in Clackamas, Roseburg, Bend, and La Grande. In addition, 10 district offices are strategically located statewide.

The department utilizes a large number of capital assets (e.g. land, buildings and equipment) to operate a variety of facilities designed to enhance fish and wildlife resources. Fish hatcheries, wildlife areas, public shooting grounds, hunting and fishing access sites and research stations are some of the facilities managed by the department.

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.

Since the prior audit, the department has made some improvements in controls over capital and non-capital assets. Of nine recommendations made in *Oregon Department of Fish and Wildlife: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2004-26), four were implemented, four were not implemented, and one was considered no longer relevant. We also found that the department incorrectly calculated depreciation for several assets and had not always recorded and depreciated federally-funded assets in the state accounting system.

Status of Prior Audit Findings

This section summarizes the department's accomplishments in implementing recommendations of the previous audit. We have listed the findings and recommendations according to their presentation in the prior audit report, followed by the current recommendation where appropriate.

Depreciable Lives Appear Excessive

Prior Finding: The department used depreciable lives that were 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 in use did not reflect how long each asset could 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.

Prior Recommendation: Use a life for each asset that reflects the actual useful life.

Status: Implemented. We obtained the department's listing of useful life classifications. We reviewed the listing and determined that it agreed to classifications established in state policy. In addition, we compared the listing to the personal and real property ledgers and found that the useful lives on the listing were appropriately applied to assets in the property ledgers.

Policy for Salvage Value of Assets Could Be Improved

Prior Finding: The department calculated 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 was not taken into consideration when salvage value was 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. The use of small salvage value (0.5 percent) applied generically to all capital assets does not increase the accuracy of asset valuation, but increases the time spent processing depreciation.

Prior Recommendation: 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 do not use salvage values for non-depreciable assets such as land.

Status: Implemented. Since the prior audit, the department had elected to eliminate asset salvage values from its property ledgers. To determine if this decision had been implemented, we reviewed the department's property ledgers and found that all salvage values had been eliminated.

To determine whether the decision to eliminate salvage values was reasonable, we reviewed the department's assets that had been sold from June 1989 to May 2006. We found that no more than 0.5 percent of all assets sold had a salvage value that was more than 10 percent of their acquisition cost. As this was consistent with state policy recommending agencies ignore small salvage values, the department's decision to eliminate the salvage value for calculating depreciation appeared reasonable.

During our analysis of depreciation, we found that the department had incorrectly calculated depreciation for several assets. Specifically, the department depreciated five assets beyond their acquisition costs for a total overstatement of $19,569 in accumulated depreciation in fiscal year 2006.

In addition, the department's automated formula for calculating depreciation was not functioning properly. As a result, depreciation expense was overstated by approximately $1.2 million in fiscal year 2005 and $450,000 in fiscal year 2006.

Current Recommendations:

- Correct the department's accounting records to address the identified overstatements in accumulated depreciation and depreciation expense.
- Review the formula used for calculating depreciation and ensure assets are depreciated correctly.

Agency's Response:

The department generally agrees with the recommendations. The department has corrected the overstatements. The department has reviewed and corrected formulas in the query used to calculate depreciation.

Depreciation Not Calculated on All Capital Assets

Prior Finding: State policy requires that capital assets be depreciated over their estimated useful lives, unless they are considered inexhaustible. The prior audit 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.

Due to the size of the department's asset database, caused by the department maintaining disposed assets in the records, the depreciation calculation was performed only once each year. The department's database would be more manageable if disposed assets were removed in a timely manner.

Prior Recommendation: 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.

Status: Implemented. We reviewed the 26 assets from the prior audit and found that the department recorded depreciation from 2003 through 2006 for these assets. Our review of depreciation for these assets found that useful lives were appropriately recorded in the property ledger before the department calculated depreciation.

We reviewed reports from the department's asset database and noted that disposed assets, while not removed from the property ledgers, are assigned a code to show that the assets are inactive.

We also reviewed 19 capital assets that had been disposed of during fiscal year 2006 and found that they had been appropriately coded as inactive in the property ledgers in a timely manner. Based on our review of the property ledgers and our recalculation of depreciation, it appeared the department was adequately managing its asset database in this regard.

We did note, however, that the department was not recording and depreciating all federally owned assets in its possession. We found the department had not recorded the cost and the related depreciation for 29 federally-funded assets. In addition, depreciation for fiscal year 2006 was not calculated or recorded for all of the department's federally-funded assets.

According to government accounting standards, the historical cost of these assets should be reported in the financial statements of the state. Depreciation expense, if applicable for these assets, should be included in the expenses of the program area that uses the assets.

By not recording these assets, the department is not properly applying government accounting standards and is misstating its capital assets and related depreciation.

Current Recommendation:

Review the federally funded/owned assets and ensure all are recorded in the state accounting system in accordance with government accounting standards and depreciated, as appropriate.

Agency's Response:

The department generally agrees with the recommendation. The department will review the federally funded/owned assets and ensure all are recorded and depreciated in accordance with government accounting standards by May 31, 2009. As of July, 2008, the assets are recorded as they are purchased.

Accumulated Depreciation Not Recorded

Prior Finding: The prior audit found that 10 of 27 buildings and two of 24 infrastructure assets tested were recorded by prior period adjustment. The department had 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 was estimated to be understated by approximately $90,000 as of June 30, 2003.

Prior Recommendation: Calculate and include depreciation in prior period adjustments to record assets.

Status: Implemented. We reviewed the 10 buildings and two infrastructure assets noted as exceptions in the prior audit and determined the department had made the proper prior period adjustments to record the accumulated depreciation related to these assets.

Asset Not Located

Prior Finding: 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.

Prior Recommendation: Record the location of each asset on the property ledger to facilitate the physical inventory.

Status: No Longer Relevant. The department's property ledgers contain a station field that indicates the division or field office at which the asset is located. Department management stated they consistently use the station field to indicate the location of their assets.

Our initial review of the department's active capital asset property ledger found that the station field was populated for each asset included in the property ledger. As a result, we consider this recommendation no longer relevant. However, we performed further work to verify that the station field was reliable for locating assets and to determine whether the department's internal controls were sufficient to ensure that state assets were adequately protected.

Because high-risk, non-capital assets such as cell phones and computers are susceptible to loss and theft, we selected a sample of 112 of these assets to trace to the physical location.

We found 68 of the 112 assets at the department's headquarters in Salem and 24 assets at field locations; one asset had been disposed of. However, the department could not locate the remaining 19 assets valued at approximately $32,000.

We also selected a sample of 12 additions and 11 disposals of non-capital assets that were included in the department's most recent annual physical inventory to determine if the department's inventory procedures were followed. The department's process required an updated inventory form, proper supporting documentation for an addition or disposal, and preparation of appropriate entries to update the property ledger.

The additions had the required inventory forms, supporting documentation for the purchases, and proper entries in the property ledgers. However, 4 of the 11 asset disposals were not fully processed in accordance with the department's inventory process. For example, the department could not locate Property Disposition Request (PDR) forms for the four assets.

Current Recommendations:

Locate the 19 assets that could not be found during our testing. In addition, ensure adherence with the inventory process to verify that proper procedures are followed for asset disposals, including the preparation of the PDR forms.

Agency's Response:

The department generally agrees with the recommendation. The department has located the nineteen assets. They are now listed on the 2007 and 2008 inventories. With the next inventory cycle, the department will ensure adherence with the inventory process to verify that proper procedures are followed for asset disposals.

Property Disposition Request Forms Not Properly Completed

Prior Finding: 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 that all surplus property be disposed of in accordance with Department of Administrative Services policies using a PDR form. By not properly completing PDR forms, property may be disposed of inappropriately.

Prior Recommendation: Comply with state policies in the disposal of surplus assets by fully completing the property disposition request forms.

Status: Not Implemented. In addition to the disposals discussed in the preceding section of this report, we selected a sample of 34 capital assets disposed of during fiscal year 2006 to determine if the department had properly prepared a PDR form for each asset. The department could not provide a PDR form for 15 of the 34 (44 percent) disposals selected for testing.

We also reviewed the department's disposal process for non-capital assets. Our review of 41 disposals found five assets (12 percent) that did not have PDR forms. Furthermore, the PDR forms for two additional assets were not approved by department management.

An additional exception included one non-capital asset that was coded inactive in the property ledger, but the PDR form for this asset had been voided. Another asset was coded as inactive, but was still in the department's possession.

Department management stated that the PDR forms are difficult to trace because the department does not have a process to cross-reference PDR forms with corresponding property numbers. The department's property ledgers include a column for the PDR form number related to each disposed asset. Our review of the property ledgers, however, showed that the department did not always properly populate this column for its disposed assets.

Current Recommendations:

Comply with state policy and ensure that a PDR form is prepared for each disposed asset and is properly approved by management. In addition, ensure the status and the PDR form number are appropriately reflected for each asset in the property ledgers. Finally, review the process for managing the PDR forms and design a method for cross-referencing the forms to the related inactive asset in the property ledgers.

Agency's Response:

The department generally agrees with the recommendation. We will comply with state policy and ensure that each PDR form is properly prepared and approved for each disposed asset by management. PDRs not properly completed will be returned to be properly completed effective immediately.

Land Improvement Not Recorded at Cost

Prior Finding: 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.

Prior Recommendation: Make the adjustment necessary to record the cost of the fishway.

Prior Recommendation: Ensure current capitalization policies are followed.

Status: Not Implemented. We reviewed the property ledger and the documentation for the fishway. We determined that the department had not followed the state's capitalization policies and had not recorded the fishway in the state's accounting system.

Current Recommendations:

Record the cost of the fishway and ensure compliance with state capitalization policies.

Agency's Response:

The department generally agrees with the recommendation. The department will record the cost of the fishway and review other fishways by May 31, 2009.

Capital Asset Purchase Not Properly Approved

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

The department had not implemented adequate controls to ensure that capital asset purchases comply with departmental policies. This could allow inappropriate purchasing decisions to be made

Prior Recommendation: Ensure current policies regarding approval authority for capital asset purchases are followed.

Status: Not Implemented. We selected a sample of 20 capital assets purchased in fiscal year 2006 to determine if they were properly approved. We identified three exceptions as described below.

One department employee authorized a purchase of approximately $10,000, but had purchase authority of only $2,500. Another employee approved the purchase of a tractor that cost approximately $77,000, but was authorized to approve purchases only up to $75,000. Finally, an employee authorized the purchase of a $75,000 semi-truck, although the employee did not have purchasing authority under the grant from which the truck was purchased.

Current Recommendation:

Ensure compliance with department policies regarding approval authority for capital asset purchases.

Agency's Response:

The Oregon Department of Fish and Wildlife generally agrees with the recommendations. We will ensure compliance with Department policies regarding approval authority for capital asset purchases. We will review and update approval authorities.

Objectives, Scope and Methodology

The objective of this audit was to determine if the department had implemented nine recommendations made in a prior audit report, *Oregon Department of Fish and Wildlife: Capital and Non-Capital Assets* (Secretary of State Audit Report No. 2004-26).

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

- interviewed department personnel;
- reviewed 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 property ledgers for real property, information technology assets, and personal property;
- re-performed depreciation calculations; and
- traced a sample of non-capital assets from the department's property ledgers to the physical location.

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

Secretary of State
Audits Division

255 Capitol St. NE, Suite 500
Salem, OR 97310

Auditing to Protect the Public Interest and Improve Oregon Government

AUDIT MANAGER: *V. Dale Bond, CPA, CISA, CFE*

AUDIT STAFF: *Raul Valdivia, CPA, CFE*
John Turgesen

DEPUTY DIRECTOR: *Mary E. Wenger, CPA*

Courtesies and cooperation extended by officials and staff of the Department of Fish and Wildlife 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:

Internet: *http://www.sos.state.or.us/audits/index.html*

Phone: *at 503-986-2255*

Mail: *Oregon Audits Division*
255 Capitol Street NE, Suite 500
Salem, OR 97310