



Auditing for a Better Oregon

January 16, 2003

Marvin D. Brown, State Forester
Oregon Department of Forestry
2600 State Street
Salem, Oregon 97310

Dear Mr. Brown:

The statewide single audit that included selected financial accounts at the Oregon Department of Forestry (department) for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the department will continue on a periodic basis.

The following department accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
Special Revenue Fund – Environmental Management (GAAP Fund 1107)		
0065	Unreconciled Deposit	\$ 8,046,266
0070	Cash on Deposit with Treasury	16,102,721
0075	Cash on Deposit-Suspense Account at Treasury	199,875
0407	Other Charges for Services	64,396,659
0503	Accounts Receivable-Other Unbilled	38,076,953
0703	(Sales) State Forest Lands	75,806,241
1405	Transfer to Counties	46,877,731
1810	Transfer to Division of State Lands	8,550,000
3111	Regular Employees	19,382,261
3130	Seasonal Employees	4,472,081
3171	Overtime Payments	4,407,359
3210	Public Employees Retirement Contribution	3,878,804

Management Letter No. 629-2004-01-01

3263	Medical, Dental, Life Insurance	3,580,929
4202	Equipment Rental	15,982,617
4500	Professional Services < \$75,000	15,098,847
4505	Professional Services > \$75,000	18,645,678
4976	Agency Program Related Supplies	3,949,703

Based on our audit, we identified three reportable conditions and five other conditions needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable conditions, along with your responses, will be included in our statewide audit report. Including your responses with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each reportable finding includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

- 1) Your agreement or disagreement with the finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned.
- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

The other conditions are issues of lesser significance that we wanted to communicate to agency management. These conditions do not require a Corrective Action Plan. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

For the reportable conditions, please respond by January 30, 2004.

Should you have any questions, feel free to contact me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA
Audit Administrator

NLY:brk

Marvin D. Brown, State Forester
Oregon Department of Forestry
Page 3

cc: Clark Seely, Assistant State Forester (Administrative Services Division)
Marti-Lee Graham, Business Services Director
Gary Weeks, Director, Department of Administrative Services

Audit Findings and Recommendations Summary Oregon Department of Forestry State Fiscal Year 2003

REPORTABLE CONDITIONS

1. Controls over Financial Reporting

The Oregon Department of Forestry (department) should improve its system of internal controls over its financial reporting process. Internal controls are the processes designed to provide reasonable assurance regarding the achievement of objectives relating to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit found that the department has significant weaknesses in its system of internal controls. Specifically, the department's documented policies and procedures governing financial activities are either out of date or non-existent; assignment of duties at the district or program level has not been fully established, described, and delegated; position descriptions have not been updated to support current positions; the department has not established a risk assessment process; internal controls at the district level are not being monitored; desk manuals are incomplete or non-existent; the department is not in compliance with state statute for cash receipting; department management is not reviewing certain accounting functions; and the department has not yet filled its internal audit position. This is a repeat finding from fiscal year 2002.

We recommend that department management:

- Fully develop, document and implement policies and procedures over financial reporting.
- Establish a delegation of duties at the program and district level.
- Update position descriptions to reflect current staffing.
- Establish and implement a risk assessment process to identify, analyze and manage risks.
- Monitor internal controls at the district level.
- Update or develop desk manuals.
- Modify the cash receipting process and establish controls to ensure compliance with state statute regarding cash receipting.
- Fully document evidence of the reconciliation process, including preparer and reviewer initials and the date prepared and reviewed.
- Consider filling the internal audit position or developing compensating controls.

2. Contracting

The department should improve its contracting processes. During the audit, fire-related professional service contracts were tested to ensure appropriate authorization, sufficient documentation and accuracy of payment amounts.

Our audit found that the department's contracting processes have significant weaknesses.

Specifically, the department lacks sufficient policies and procedures; some staff responsible for contract administration may not be properly trained; contract payments were not reviewed and approved by authorized persons; some payments were not fully supported, contained calculation errors, were not made timely, and were not posted to the accounting records correctly; department management is not monitoring internal controls to ensure compliance with department and Department of Administrative Services (DAS) policy; and some state funds were not used according to state guidelines. This is a repeat finding from fiscal year 2002.

To date, the total funds that department has yet to recover is \$25,565.

We recommend that department management:

- Establish policies and procedures for the preparation and approval of payment documentation, monitoring activities, and overall contract administration responsibilities.
- Provide training to staff assigned with contract administration responsibilities addressing basic principles of state contracting rules and responsibilities of contract administrators.
- Ensure that payments are made timely, calculated correctly, have adequate supporting documentation, and are posted to the accounting records correctly.
- Monitor internal controls to ensure compliance with department guidelines and state statute.
- Ensure that state funds are used appropriately.

3. Payroll

The department should improve its payroll process. During the audit, payroll for administratively determined (AD), seasonal and regular employees were tested to ensure payroll transactions are complete, accurate, supported, and in compliance with laws and regulations.

Our audit found that some department managers were found to have intentionally overridden internal controls and the department has not developed an adequate system of controls governing payroll processing. Specifically, functional responsibilities were not separated according to the *Oregon Accounting Manual* (OAM), department management did not provide adequate oversight of controls in the payroll department and department payroll staff did not perform a sufficient review of payroll systems to ensure that errors were detected and corrected prior to processing. Furthermore, payroll processing weaknesses were noted such as lack of policies and procedures to support compliance with the OAM and state statute, miscalculation of hours and overtime, missing timecards, unauthorized deductions, reimbursable hours were not billed to the Federal Emergency Management Agency

(FEMA), and employees continuing to earn 6 percent retirement differential after qualifying and receiving PERS contributions.

Specific detail regarding payroll errors was previously provided to department management.

We recommend that department management improve controls over payroll including:

- Providing sufficient oversight and adequately segregating payroll responsibilities.
- Performing a thorough review and approval throughout the payroll process.
- Developing and implementing policies and procedures in compliance with OAM and ORS.

We also recommend that executive management take appropriate action regarding department managers intentional override of controls.

OTHER CONDITIONS

1. Timber Sales and Transfers to Counties

The department manages state forestlands so as to secure the greatest permanent value of such lands to the state. Part of this management is the removal of timber through timber sales. Recognition of timber sale revenue occurs after the timber is harvested, when the funds become available and measurable. The department is required by statute to return a percentage of the funds to the counties from which the sale originated. The percentage returned can vary depending on the amount of rehabilitation funds in the sale. In 2002, we found the department had over-refunded counties. In 2003, we found that, although the department had determined the total amount overpaid to counties, management has yet to collect the \$1.46 million owed to the department.

We recommend that department management work with each county to establish a timetable and the best method for repayment of funds owed.

2. State Purchase Cards and Use of State Funds

Department management should improve controls over state purchase cards and the use of state funds. We noted that some employees made purchases prohibited in the OAM including retirement gift certificates, refreshments, cakes, and party supplies totaling \$1799; office supplies were purchased through local vendors instead of state price agreements; seasonal employee purchase cards were not deactivated; and written policies and procedures were out-of-date and conflicted with state policy. This is a repeat finding from fiscal year 2002.

We recommend that department management:

- Fully adopt and implement the OAM policy in its intent by immediately prohibiting the use of state funds for unauthorized purchases such as retirement gifts as well as refreshments and party supplies.
- Develop policies and procedures to ensure seasonal employee purchase cards are deactivated; and office supplies are purchased through the state price agreements.

3. Internal Controls Over Miscellaneous Deposits

By statute, funds are to be deposited within one business day of receipt, although provisions exist to authorize exceptions for legitimate business reasons. In January 2003, the department requested an exemption to the next day deposit requirement for multiple district and field offices. This exemption allows the specified districts to deposit funds within the timeframe or dollar amount documented in the request. Districts that have not requested an exemption to the next day deposit requirement are required to follow state statute.

Department management should improve controls over miscellaneous deposits to ensure compliance with the next day deposit exemption or state statute. Specifically, we found that the department is not monitoring district compliance with statute and that districts are not always following the next day deposit exemption or state statute. For example, we found that one district's campground fees were not deposited until the dollar amount accumulated to \$1,140, when the exemption states deposits will be made upon accumulation of \$100. In addition, we noted that management has not finalized and implemented their policy on receiving and handling monies. This is a repeat finding from fiscal year 2002.

We recommend that department management ensure all district and field offices are in compliance with state statute and any exemption filed. We also recommend that department management finalize and implement their policy on receiving and handling monies.

4. Check Stock

Department management should improve internal controls over check stock. Check stock at the department was reviewed to determine if controls were in place and working. Although department management had limited employee access to the check stock, we found an inordinate amount of check stock with no apparent need, as only four checks were issued during fiscal year 2003. We also found that periodic physical inventories of check stock are not occurring; and various policies, procedures and manuals over check stock are outdated and limited in scope and detail.

We recommend that department management:

- Evaluate the amount and/or need of check stock and properly destroy check stock in excess of need.
- Conduct periodic physical inventories of check stock.
- Complete and update policies, procedures, and manuals for revolving fund check processing, conduct periodic physical inventories, document used checks on the inventory log, and destroy excess check stock.

5. TRAS

Department management should improve logical access controls over the Timber Revenue Accounting System (TRAS). Auditors reviewed internal controls over TRAS and found the following: The department has not developed a System Development Life Cycle Methodology (SDLC) governing the

ongoing maintenance of its computer systems; user manuals and security manuals do not exist and security was not designed on a least-need basis; the department does not have a mechanism in place to timely remove users from the system when access is no longer needed and department management has not determined the capabilities of each screen in TRAS, nor have they determined incompatible screens in which access creates a segregation of duties violation.

We recommend that department management:

- Fully develop and implement SDLC methodologies for maintenance activities on its existing systems, including user and security manuals.
- Create access controls in TRAS to restrict user access.
- Develop a mechanism to timely remove users from the system.
- Determine the capabilities of each screen within TRAS as well as identify incompatible screens.