



Department of Natural Resources

Timber Fee Revenue Audit

Audit Period: State Fiscal Year 2017

Results Summary:

Objective	Conclusion
Timber Fee Revenue Process	Improvement Needed

* Refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The Ohio Department of Natural Resources (DNR) Division of Forestry (DOF) evaluates a portion of the forest to assess inventory and determine potential harvesting opportunities. Harvesting can improve the overall health and condition of the forest by removing trees of poor health and vigor that are prone to attack from insects and disease. It also can reduce the stand's susceptibility to natural disturbances such as wildfire and ice storms. Timber harvests are one way that the Division meets the requirement in the Ohio Revised Code to "bring about a profitable growth of timber."

Ohio has 21 state forests covering nearly 200,000 acres. Ohio state forests vary in size from nearly 64,000 acres to less than 500 acres and are located in 21 Ohio counties. These forests are managed for multiple uses including sustainable timber production, wildlife habitat, soil and water protection, and recreation.

The timber sale program is designed to benefit state forests and the State's economy. The timber is sold by competitive bid to Ohio's \$15 billion forest industry that employs over 119,000 people. Between eight and ten million board feet of timber are harvested annually from Ohio state forests. A portion of the revenue from state forest stumpage sales is distributed to local governments. The DOF is allowed to recover the costs associated with timber management. The net revenue is then divided as follows, according to Ohio Revised Code; Section 1503.05: 35 percent to the DOF and 65 percent to the local county. In fiscal year 2017, timber fee revenue generated \$2,737,843; after costs of \$410,300 were deducted, \$1,512,903 was distributed to the 12 local counties where logging occurred and \$814,640 was distributed to DOF.

During the audit, OIA identified opportunities for DNR to strengthen internal controls and improve business operations. OIA conforms with the International Standards for the Professional Practice of Internal Auditing. OIA would like to thank DNR staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an audit related to the controls over the agency's timber fee revenue and redistribution process. This work was completed July through October 2018. The following summarizes the objective of the review:

- Evaluate the design and effectiveness of controls over the timber fee revenue collection and redistribution process.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Timeliness of Deposits

Ohio Administrative Code (OAC) section 113-1-02(A) requires state agencies to deposit all monies collected within three business days of receipt by a state entity into the state treasury.

A sound internal control framework should include procedures to verify the accuracy and completeness of revenue, including procedures to verify the accounting book of record, OAKS, agrees to transaction support.

The Entering Regular Deposits section of the OAKS FIN Source Manual states the following:

- Section Five – Enter the actual deposit date in the Acctg Date field. This may be a different date than when the payment was received.
- Section Nine – Enter the date the items in this batch were received in the Received field.
- Section Ten – Verify the Entered Date displays the date on which the items were actually entered into OAKS FIN.

DNR DOF district offices receive timber fee stumpage revenues but do not make their own deposits. The district offices must physically transfer revenues received to the DOF fiscal office in Columbus, increasing the time it takes to deposit revenues, making compliance with this requirement difficult. Furthermore, DOF fiscal staff do not document the actual received date recorded on the timber fee revenue transmittal forms when entering the deposit information into OAKS FIN. OAKS pre-populates the received date to the current date when the batch is created.

During control testing, OIA compared the information reported on the timber fee revenue transmittal forms to the information in OAKS FIN and noted the following:

- For 17 (100%) out of 17 transactions tested, revenues were not deposited into the state treasury within three business days (non-compliance with OAC 113-1-02). Revenues were deposited between four and nineteen days of receipt, with an average of nine business days of receipt.

Failure to document the actual received date can make it difficult to track revenue and provide reasonable assurance that DOF is complying with the timely deposit rule. Recording received dates inaccurately increases the risk of noncompliance with FIN depositing requirements and creates conflicting documentation of receipts. This could also skew reporting since the data entered does not reflect the actual received date. Not depositing revenues timely can increase the risk of loss, theft, or misplacement of revenues. Furthermore, non-compliance with the timely deposit rule reduces potential interest income to the State.



Recommendation

Update current revenue deposit procedures to include the following:

- Implement the Key Capture device in the DOF district offices to ensure payments received are instantly deposited timely into Key Bank. Develop procedures for using the Key Capture device to assist with complying with the OAC to deposit receipts within three business days.
- Ensure internal procedures reflect the FIN Manual. Include reviewing the dates in OAKS FIN as part of the supervisory review process to ensure accuracy of input. Pre-populated dates should be updated to reflect actual dates.

Provide training to DOF fiscal staff on the proper way to enter deposits in OAKS. Require use of the OAKS FIN Manual to ensure the most up-to-date procedures are followed when entering deposits. Periodically review procedures and update as needed.

Management Response

We plan to remedy these issues by following the OBM recommendations found in the audit report. Specifically, we plan to purchase and implement use of Key Capture devices to perform check deposits at our district offices to eliminate the need for mailing checks to our Columbus office. The vast majority of timber revenue checks are delivered to the Chillicothe district office, so we plan to obtain and use the Key Capture device at this location first. If needed, we will also purchase cross-cut shredders to destroy the checks after the required record retention period. After we have a process developed, we can implement use of these devices at other district offices as needed. In addition, we will use OAKS FIN manual procedures for deposits to ensure accurate entry of dates and other information. Supervisors will be trained to review these entries and training of pertinent staff will be periodically updated to ensure use of up-to-date procedures.

In addition to implementing the use of the Key Capture device, the use of a mobile I-phone app will also be investigated and considered. The idea is that IT could push the Key Bank mobile app out to selected state I-phones for the purpose of depositing checks received in a timely manner to meet our goal of 100% OAC 113-1-02 compliance as soon as possible. The app is free to download on any mobile device and would have zero impact on how our customers currently conduct business. Training would be very easy to administer. A field associate/manager would simply stamp the back of the check with our standard DOF "For Deposit Only" imprint, deposit the check via the mobile app, and then forward the check to the main office.

Risk	Remediation Owner	Estimated Completion Date
Moderate	DOF Assistant Chief	June 30, 2019



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee