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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 28, 2009

Mr. Alexander B. Grannis
Commissioner
NYS Department of Environmental Conservation
625 Broadway
Albany, NY 12233

Re: Report 2009-F-25

Dear Mr. Grannis:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Department of Environmental Conservation (Department) to implement the recommendations contained in our audit report, *State Forest Timber Sales* (Report 2006-S-9).

Background, Scope and Objective

The Department's Division of Lands and Forests (Division) is responsible for managing State-owned land and conservation easements (parcels of private land on which the State has purchased certain rights and interests). The Bureau of State Land Management (Bureau), one of four Bureaus within the Division, is responsible for managing approximately 770,000 acres of State forest. In carrying out this responsibility, the Bureau oversees the harvesting and sale of State-owned timber in addition to other land management and conservation-related responsibilities. The Bureau is responsible for these forests and regularly cuts down trees to promote forest health and biodiversity, ensure forest sustainability, provide for recreational opportunities, and accomplish other important forest management goals. As of March 31, 2009, a total of 37 staff was assigned to the Bureau.

The Department divides the State into nine regions, and has administrative offices in each region. The Department's Central Office is located in Albany. State-owned timber is harvested in seven of the nine regions. During the three years ended March 31, 2009, the revenue from these sales totaled approximately \$14.4 million, which is approximately \$900,000 lower than the revenue generated from timber sales for the three-year period examined at the time of the initial audit.

Our initial audit report, which was issued on April 17, 2007, examined whether the Department was harvesting the allowable cut and receiving a fair market price for its timber sales. Our audit report covered the period April 1, 2003 through June 28, 2006. We concluded that although the Department had determined the optimal amount of timber that could be harvested per

year, it had only harvested about half that amount. As such, we determined that if the Department had taken action to increase the harvesting of timber, an additional \$14.6 million in timber sale revenue could have been realized by the State over a three-year period (an average of about \$4.85 million annually). The main reason for limited timber harvesting had been the lack of available staff. We determined it would be cost effective for the Department to hire additional foresters. We also found most timber sales generated over \$10,000 of revenue. These sales are processed by the Department's Central Office staff and require approval by the Office of the State Comptroller. These sales were adequately documented. However sales below \$10,000, which are handled by the regional offices, were generally not documented. As a result, there is less assurance that market price was received for these smaller sales. Finally, timber is appraised prior to sale. However we found little, if any, assurance the market value was estimated accurately. The objective of our follow-up was to assess the extent of implementation, as of May 19, 2009, of the seven recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have made progress in correcting the problems we identified. However, additional improvements are needed. Of the seven prior audit recommendations, two recommendations have been implemented, four recommendations have been partially implemented, and one recommendation has not been implemented.

In the original audit, we concluded that the Department could produce an additional \$4.85 million annually in timber sale revenue by taking certain actions to increase forest harvesting. This revenue enhancement opportunity still exists. Using the harvestable acreage figures identified in the original audit and adjusting to account for the average per acre revenue the Department realized since the original audit, we now estimate the Department could produce an additional \$5.2 million annually in timber sale revenue.

Follow-up Observations

Recommendation 1

Estimate the Department's future forest management workload, determine how many additional foresters would be needed to both address Department priorities and accomplish overall forest management goals by harvesting more timber, and add that many additional foresters to the Bureau (provided the additional foresters would, in fact, be cost-effective).

Status - Partially Implemented

Agency Action - Department officials completed an assessment of forest management workloads and the staffing levels required to meet these workloads. Officials estimated an increase of 15 new permanent positions would bring harvesting to a more appropriate and sustainable level. The Department requested approval from the Division of Budget to hire

the additional resources in February 2009. However, as of May 19, 2009 the Department had not received approval to fill these positions.

In our original audit, we concluded that the Department could produce an additional \$4.85 million annually in timber sale revenue by hiring additional foresters. Since the Department has not been given the authority to fully act upon the recommendation identified in the original audit, this revenue enhancement opportunity still exists. Using the harvestable acreage figures identified in the original audit (8,410 acres a year) and adjusting to account for the average revenue per acre that the Department realized in fiscal years 2006-07 and 2007-08 (\$619 per acre), we now estimate the Department can produce \$5.2 million annually in additional timber sale revenue.

Recommendation 2

Use the most current regional determinations of allowable cuts when planning timber harvesting activities and determining forester staffing needs.

Status - Not Implemented

Agency Action - As of May 13, 2009, the Department was still using the regional determinations of allowable cuts for State forests established in 1992. However, these determinations do not account for additional forest areas acquired since 1992, nor does it reflect the changes in composition of existing State forests. Department officials agree with the original recommendation not only for the purposes of increasing commercial harvesting but also for maintaining the health of the forests. Despite this, updates to the regional determinations have not yet taken place.

Recommendation 3

Monitor local timber sales to ensure that the Department's competitive bidding requirements are met and compliance with the requirements is adequately documented.

Status - Partially Implemented

Agency Action - In April 2009, the Department issued, and in some cases re-issued, existing internal Department policies requiring the Division's regional staff to monitor local timber sales to ensure that competitive bidding requirements are met and compliance is adequately documented. The new policies call for enhanced documentation of local timber sale contracts, and also create a compliance checklist for the regions to follow. In addition, the new policies call for an audit of each regional office's timber sales file and review process every two years. However, since these policy changes were finalized during the course of our review, it was too soon to assess the effectiveness of these changes.

Recommendation 4

Re-evaluate how timber appraisals are prepared and, as part of the re-evaluation, obtain an independent evaluation of the Bureau's appraisal methods. If it is determined that improvements can be made in the appraisal process, make those improvements.

Status - Implemented

Agency Action - Department officials contacted four neighboring states to ascertain the nature and extent of each state's timber appraisal process. Based on this review, Department officials concluded that the methods they have in place for monitoring timber appraisals is sufficient and current and no further action was needed. Officials did indicate that if they become aware of changes that other states implement in their timber appraisal process, they will evaluate these changes to determine whether it would be beneficial to make comparable changes in New York.

Recommendation 5

Issue specific guidelines to the regions on how timber appraisals should be performed and documented, and monitor the appraisal process to ensure that it (a) provides a reasonable approximation of actual market values, (b) is fully documented, and (c) is consistent from region to region.

Status - Partially Implemented

Agency Action - Department officials issued policies and procedures to all supervisory staff, which address how appraisals should be performed and documented. These policies also specify the monitoring responsibilities of supervisory staff. However, from a consistency perspective, appraisal methods continue to vary from region to region. According to Division officials, such standardization would be difficult because timber purchasers in those regions buy timber differently.

Division officials have standardized the documentation used for appraising timber, in part, through the development of the Local Sale Request for Conceptual Approval form. Use of this form is required for all locally bid timber sales and non-bid sales requiring bulldozer work (other than for roadside landing construction). This form documents the number of trees, unit value, and estimated revenue and volume for each species of timber sold. However, work completed by the Department's Internal Auditors found that, in two of the nine regions, none of the timber sale files examined contained worksheets and/or other documentation serving as the basis for reported timber volumes and unit values, which makes it difficult to determine reasonable approximation of actual market values.

Recommendation 6

Modify the Commissioner's Policy so that the Commissioner's delegation of authority to approve timber valuations is explicitly stated.

Status - Implemented

Agency Action - The Department's Commissioner signed a new delegation of authority on March 18, 2009. This delegation grants appropriate Department officials the authority to approve the fair market value for forest products sales to be sold from State land.

Recommendation 7

Develop formal policies and procedures addressing the collection and compilation of data for the Stumpage Price Report, including direction on retention of the surveys collected.

Status - Partially Implemented

Agency Action - As of May 19, 2009, Department officials were in the process of finalizing an existing draft of procedures and methodologies which will serve as a guide to all forestry staff involved in the data collection, compilation, reporting, and retention of the supporting documentation for the Stumpage Price Report. Department officials had not yet issued this document to the regional offices; however, it is their intention to do so once the document has been finalized.

Major contributors to this report were Ed Durocher, Jessica Turner, W Sage Hopmeier and Matt Luther.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

John F. Buyce, CPA
Audit Manager

cc: Tom Lukacs, Division of the Budget