



Washington State Auditor's Office

Independence • Respect • Integrity

Accountability Audit Report

Department of Natural Resources

For the period July 1, 2013 through June 30, 2014

Published October 1, 2015

Report No. 1015212





Washington State Auditor's Office

October 1, 2015

Mr. Peter Goldmark, Commissioner of Public Lands
Department of Natural Resources

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Department's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in blue ink that reads "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	5
Related Reports	11
Information About The Department	12
About The State Auditor’s Office	13

AUDIT SUMMARY

Results in brief

In most areas we audited, Department operations complied with applicable requirements and provided adequate safeguarding of public resources. The Department also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified an area in which the Department could make improvements.

We recommended the Department:

- Follow internal policies when establishing contracts for fire suppression services. Specifically, ensure the contracts contain the allowable reimbursement rates used to reimburse contractors.
- Prior to making payments, obtain and review adequate supporting documentation to ensure reimbursements are made only allowable resources and services.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Department of Natural Resources from July 1, 2013 through June 30, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Department's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Timber sales
- Aquatic leases
- Payroll – overtime
- Hotline complaint – Carlton Complex fire

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Department of Natural Resources did not follow established policy when it executed an emergency wildfire suppression contract that cost \$1.8 million.

Background

The Department of Natural Resources protects natural resources through fire prevention and suppression and regulating forest practices. The Department is the largest on-call fire department in the state, protecting 12.7 million acres of non-federal land including private and state-owned land from wildfires. Firefighting resources called into service include Department staff, other agencies, local fire districts and private contractors.

The Department has established an internal policy that requires a written agreement be established with private contractors when assistance is needed with fire suppression activities. These agreements must establish the wage, equipment and resource rates prior to the contractor beginning work.

In 2014, most wildfires occurred on the east side of the Cascades in Chelan and Okanogan counties. The Carlton Complex fire was the largest wildfire in Washington's recorded history. In an effort to extinguish the Carlton Complex fire the Department entered into an emergency contract with a private contractor who provided equipment and resources for wildfire suppression. The Department paid more than \$1.8 million to the contractor for fire suppression activities.

Description of Condition

We found the Department did not follow its own policy when it executed a wildfire suppression contract related to the Carlton Complex fire. The Department did not prepare a complete list of personnel, equipment and resources to be supplied by the contractor. The original contract did not establish the rates to reimburse the contractor for the use of its personnel, equipment and other resources and there was no amendment to establish allowable rates.

We also found the Department did not obtain and review sufficient, supporting documentation for all invoiced amounts prior to reimbursing the contractor.

Cause of Condition

The Department asserts it normally follows its policy and establishes a list of reimbursement rates in contracts for resources and services to be provided by private contractors. Due to the imminent threat to public safety, the Department entered into this emergency agreement without establishing these rates.

The Department asserts it normally collects and reviews more detailed supporting documentation prior to making payments to wildfire suppression contractors. This contract did not specify what documentation was required for reimbursement and it accepted the provided documents as adequate support of the reimbursement requests. The Department asserts the contractor's charges were within reasonable ranges for equipment rates based on supply and demand for the needed resources at the time of the wildfire. The Department asserted it had no reason to question that the resources and services invoiced by the contractor were provided because the fire was successfully suppressed.

Effect of Condition

Without establishing agreed upon rates in contracts for fire suppression services, public funds are at risk of misuse or abuse.

Since agreed-upon reimbursement rates were not established in the contract, Department staff assigned to review the contractor's invoices used rates listed in the Department's 2014 Wage and Equipment Rate Guide for Wildfires. However, the staff did not consistently use the rates in the guide to evaluate all reimbursement requests. Reimbursement requests for equipment and resources provided by subcontractors were invoiced and paid at rates higher than those in the guide.

The Department asserts that it is not uncommon to negotiate rates higher than those published in the Guide in order to secure resources under emergency circumstances. However, the higher rates were not established in the contract.

By not obtaining and reviewing adequate supporting documentation prior to making payments, the Department had no assurance that only allowable resources and services were reimbursed.

Department staff requested the contractor re-pay the Department \$8,756 for equipment such as radios, chainsaws and flashlights that was originally reimbursed. The Department does not normally reimburse contractors for these items.

Recommendation

We recommend the Department:

- Follow internal policies when establishing contracts for fire suppression services. Specifically, ensure contracts contain the allowable reimbursement rates for the contractor and any subcontractors.
- Prior to making payments, obtain and review sufficient supporting documentation to ensure only allowable resources and services are reimbursed.

Department's Response

This emergency contract was entered into under dire circumstances where there was an imminent threat to public safety and lives were at risk. The Department acknowledges that internal procedures were not followed in the instance of this unique contract. Due to extraordinary wildfire duty demands on the Department employee who prepared the initial contract, the employee did not follow through and complete the section of the emergency contract that should specify the allowable reimbursement rates.

Published annually-adjusted wage and equipment rates are normally used in fire suppression resource contracts that are prepared in advance of the fire season. It also is usual and customary, when a contract is negotiated on the spot during a wildfire, to allow market rates commensurate with demand when a scarce resource is needed during an emergency. In this instance, an emergency contract was negotiated in the midst of extreme fire conditions and resource scarcity.

When the Department's fiscal staff began thoroughly reviewing invoices submitted under this contract, itemized amounts billed were compared to published reimbursement rates and consideration was given to resource scarcity in dire circumstances. Some charges were determined to be unallowable, and the contractor repaid the agency for those amounts. The Department had no reason to believe the billed work was not performed because the fire was successfully suppressed in the area in which the contractors' resources were engaged in firefighting.

The Department agrees with the Auditor's recommendations.

Auditor's Remarks

We thank the Department for its commitment to resolving this issue. We will follow-up during our next scheduled audit.

Applicable Laws and Regulations

RCW 76.04.015, Fire protection powers and duties of department — Enforcement — Investigation — Administration, states in part:

- (6) When the department considers it to be in the best interest of the state, it may cooperate with any agency of another state, the United States or any agency thereof, the Dominion of Canada or any agency or province thereof, and any county, town, corporation, individual, or Indian tribe within the state of Washington in forest firefighting and patrol.

RCW 76.04.475, Reimbursement for costs of suppression action, states in part:

- (4) Claims for reimbursement shall be submitted within a reasonable time to the department which shall upon verifying the amounts therein and the necessity thereof authorize payment at such rates as established by the department for wages and equipment rental.

RCW 43.88.160, Fiscal management – powers and duties of officers and agencies, states in part:

- (4) In addition, the director of financial management, as agent of the governor, shall:
 - (a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a. - Who is responsible for internal control?

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c. - Control Activities

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e. - Monitoring

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively.

Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially

affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

A summary of the audit for the period ending June 30, 2014, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>.

Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

A summary of the audit for the period ending June 30, 2014, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>.

INFORMATION ABOUT THE DEPARTMENT

Created in 1957, the role of the Washington State Department of Natural Resources is to protect and manage more than 5.6 million acres of forest, range, agricultural, aquatic and commercial lands for Washington citizens. Nearly three million acres are state trust lands, most of which were given to Washington at statehood by the federal government. State trust lands managed by the Department to help support counties, public schools, universities and colleges, capitol buildings, prisons and state institutions, local services in many counties and the state General Fund. Department-managed lands also provide many other public benefits, such as destinations for outdoor recreation, fish and wildlife habitat and clean air and water. The Department also protects natural resources through fire prevention and suppression and regulating forest practices.

For the audit period, the Department employed approximately 1,252 permanent employees. Elected Commissioner of Public Lands, Peter Goldmark heads the Department. For the 2013-2015 biennium, the Department had operating budgets of approximately \$418 million.

Contact information related to this report	
Address:	Department of Natural Resources P.O. Box 47041 Olympia, WA 98504-7041
Contact:	Ben Hainline, Department Auditor
Telephone:	(360) 902-1040
Website:	www.dnr.wa.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Department of Natural Resources at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov