

# **CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION**

Audit Report

## **ADMINISTRATIVE AND ACCOUNTING CONTROLS OVER THE OFFICE REVOLVING FUND**

*January 1, 2008, through March 10, 2009*



**JOHN CHIANG**  
California State Controller

July 2009



**JOHN CHIANG**  
*California State Controller*

July 29, 2009

Del Walters, Chief  
California Department of Forestry  
and Fire Protection  
1416 Ninth Street  
P.O. Box 944246  
Sacramento, CA 94244-2460

Dear Mr. Walters:

This report presents the results of the State Controller's Office (SCO) review of the Department of Forestry and Fire Protection's (CAL FIRE) administrative and accounting controls over the Office Revolving Fund (ORF). We conducted our review pursuant to Government Code section 12418, which stipulates that the State Controller shall direct and superintend the collection of money due the state.

Our review disclosed the following:

- CAL FIRE demonstrates poor accountability and inadequate efforts to ensure that outstanding revolving fund amounts are accounted, collected and processed accurately and in a timely manner.
- CAL FIRE's internal controls over the ORF transactions are virtually non-existent.

We are pleased to note that the current CAL FIRE management recognizes the severity of problems identified in our audit report and is committed to take appropriate action to address them. Apparently this has not been the case with past department administrations. We are particularly encouraged by the proactive action taken by your department since we had our exit conference on June 3, 2009. As indicated in your response, there are other issues that require more extensive efforts. In addition, we will conduct a follow-up review in approximately six months to ensure all of the issues have been appropriately resolved.

Throughout the course of our audit, we received excellent cooperation from various staff members of your department. Their effort and assistance is appreciated

Del Waters, Chief

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July 29, 2009

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/wm:sr

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# Executive Summary

This report presents the results of the State Controller's Office (SCO) audit of the California Department of Forestry and Fire Protection's (CAL FIRE) administrative and internal accounting controls over its office revolving fund (ORF). Our audit was initiated to address concerns that CAL FIRE's ORF had an outstanding balance of \$1.44 million as of June 30, 2008. An overwhelming portion of the outstanding balance was related to employee salary and travel advances. Under Government Code section 12418, the State Controller is to direct and superintend the collection of all money due the State. In addition, Government Code section 12410 stipulates that the State Controller shall audit all claims against the State, and may audit the disbursement of any State money for correctness and legality and for sufficient provision of law for payment.

Our audit identified the following concerns:

- CAL FIRE demonstrates poor accountability and inadequate efforts to ensure that outstanding revolving fund amounts are accounted, collected, and processed accurately and in a timely manner. CAL FIRE's ORF had an outstanding balance of \$1.44 million as of June 30, 2008; an overwhelming portion of this amount was related to employee salary and travel advances. The amount of the outstanding balance continued to rise, totaling \$1.69 million as of March 10, 2009. Further analysis revealed that \$1.22 million of the \$1.69 million (72%) has been outstanding for more than 60 days. The SCO audit discovered that some of the outstanding balances resulted from poor accounting practices, while others stemmed from inadequate collection efforts. Neither the CAL FIRE headquarters nor the field unit staff has current, accurate, and reliable data to effectively manage and monitor the progress of the collection efforts. Numerous individuals are involved in the collection function and processes, and these individuals do not have clearly defined duties and responsibilities. Consequently, CAL FIRE failed to collect hundreds of thousands of dollars in accounts receivable in a timely manner, with some outstanding since 1988. In some instances, the delay in collecting salary and travel advances and overpayments resulted in interest-free loans to CAL FIRE employees. We found several travel advances for which the excess travel payment was not deducted from payroll, and several occasions wherein outstanding amounts were not properly collected from separating employees. In addition, we found that some employees received both a salary advance and a warrant.

Despite the fact that many of the system and process shortcomings were identified in a 2005 department internal audit report, there is no evidence that past CAL FIRE management considered the matters serious or took action to implement the internal auditor's recommendations. On the contrary, since the release of the internal audit report, the outstanding amount has increased by 72% over the last four years, from \$835,000 for fiscal year (FY) 2004-05 to \$1.44 million for FY 2007-08 (see Appendix 1). The balance continued to rise, totaling \$1.69 million as of March 10, 2009.

- CAL FIRE's internal controls over the ORF transactions are virtually non-existent. CAL FIRE has a decentralized revolving fund system with checks being disbursed, deposits made, and collection efforts initiated at 21 different units located throughout California. The SCO audit found that virtually any CAL FIRE employee at headquarters or the field units with access and knowledge about the revolving fund process could misappropriate significant amounts of state funds for a long period of time without detection, due to the following control deficiencies:
  - A lack of written policies and procedures has resulted in inconsistency among the 21 different units in processing revolving fund transactions. For example, the units in the Southern Region must send their deposits to the Regional Office for deposit, while units in the Northern Region are instructed to deposit their own funds.
  - An inadequate separation of duties exists. For example, headquarters accounting staff members prepare checks, operate the check signing machine, and disperse checks. Unit staff members receive deposits and prepare and distribute checks.
  - Check stock at the units is not properly safeguarded. Each unit maintains its own safe, but several staff members have access to the safe, which contains the check stock and checks for deposit. The safe combination is not changed on a periodic basis or as staff members leave employment with CAL FIRE. For example, in one unit we visited, at least four current staff members have access to the check stock. The safe combination was not changed, even after employees separated from the CAL FIRE or transferred to another unit. In another unit, the combination is known by other personnel who do not prepare checks or receive deposits.
  - A lack of accountability over check stock exists. CAL FIRE does not perform a reconciliation of check stock and does not perform a physical inventory of check stock. Check stock is distributed to the units with no accounting for prior check stock usage, and check logs are not maintained by every unit.
  - No per-check amount limits exist and no signature cards are required by the bank. Moreover, CAL FIRE does not verify signatures on revolving fund checks against the list of authorized signers. Signature cards are not updated in a timely manner and units do not retain copies of signature authorizations of some signatures. Therefore, any staff member or others with access to the safe could take check stock, write significant sums, and negotiate the checks despite the fact that per-check amount limits are imposed internally by CAL FIRE.
  - The Departmental Accounting Office (DAO) headquarters is eight months behind in bank reconciliations and adjusting revolving fund entries are not posted to the California State Accounting and Reporting System (CALSTARS) in a timely manner. During the SCO audit in March 2009, DAO staff discovered a folder from

2008 with multiple check foils that had not been entered into CALSTARS, causing the account balance to be misstated.

- Stop-payments are not placed on stale-dated checks that are more than a year old, as required by the State Administrative Manual. For example, a check in the amount of \$30,227.41 was issued on August 3, 2004, and was still listed on the outstanding check list as of April 30, 2008.
- Revolving fund deposits are not made within the required time frame. From a sample of 98 deposit receipts, the SCO audit found 75 receipts (77%), with an aggregate amount of \$62,788.20, that were not deposited within the required ten working days.

The scope of this SCO audit is limited to CAL FIRE's processes and procedures relative to its ORF. However, the seriousness of the control deficiencies disclosed in this report raised questions about the soundness and integrity of other aspects of CAL FIRE's fiscal operation.

### Recommendations

CAL FIRE should:

- Establish a centralized collection function in each of the two regional offices and clearly assign collection responsibilities.
- Increase the accuracy of the revolving fund outstanding report (D06) so that it can be used as an effective tool for clearing outstanding amounts by:
  - Ensuring that the regional offices promptly clear any outstanding items for which units provide documentation to clear;
  - Removing outstanding items that are less than 180 days old from the D06 report before forwarding it to the units, as those items are recent and may be in progress;
  - Having each unit carefully review the D06 report on a monthly basis and report status to both the regional offices and the DAO: and
  - Making the regional offices responsible for ensuring that units are responding to the D06 report on a monthly basis and clearing outstanding items or providing an explanation on the status of any outstanding amount.
- Develop a process to ensure that travel advances are cleared within 30 days with a travel expense claim (TEC) and that advances not cleared within 30 days are deducted from the next payroll warrant in accordance with applicable bargaining unit agreements.
- Ensure that the DAO continues to send dispute notices for TECs to the appropriate employee and unit. However, the DAO should consider performing claim cuts for the disputed portion of the TEC and submitting the remainder of the claim to the SCO for

reimbursement, in order to maximize reimbursement and lessen outstanding revolving fund amounts. The DAO should work with the unit to resolve remaining discrepancies.

- Update its policies and procedures manual to ensure that all SAM revolving fund and collection regulations are specified and enforced, as well as provide appropriate training to staff on an ongoing basis.
- Ensure that the DAO has appropriate staffing and that it cross trains staff outside the unit, if necessary, in order to maintain proper separation of duties; ensure timely revolving fund reimbursement and timely entries into CALSTARS; and ensure sufficient, qualified staffing for the bank reconciliation function.
- Consider centralizing the revolving fund functions in the regional offices or at headquarters.
- Develop and implement a policy for check stock and safes that includes limiting access to check stock, changing safe combinations, properly securing safes, maintaining a check log, and performing check stock physical inventories and reconciliations.
- Ensure that CAL FIRE processes for deposit include ensuring that every unit with an approved bank within a reasonable distance make its own deposits, that units deposit cash and checks at the prescribed dollar amounts and timeframes, that personnel staff ensure that all SCO warrants for redeposit are redeposited in a timely manner, and that units promptly log deposits at the time of receipt and prior to placing the deposits in the safe.
- Arrange for a comprehensive audit of all aspects of its fiscal operations pursuant to Section 20000 of the State Administrative Manual.

# Audit Report

## Introduction

The State Controller's Office (SCO) conducted a audit of the California Department of Forestry and Fire Protection's (CAL FIRE) administrative and accounting controls over the Office Revolving Fund (ORF) for the period of January 1, 2008, through March 10, 2009.

Our audit was initiated to address concerns that CAL FIRE's ORF had an outstanding balance of \$1.44 million as of June 30, 2008, an overwhelming portion of which was related to employee salary and travel advances.

## Background of CAL FIRE

CAL FIRE is an emergency response and resource protection department. It is comprised of about 4,700 permanent employees, 2,200 seasonal employees, and thousands of volunteers. There are 21 units throughout California, two regional offices (Santa Rosa and Fresno), and a headquarters in Sacramento, California. CAL FIRE protects lives, property, and natural resources from fire; responds to emergencies of all types; and protects and preserves timberlands, wild lands, and urban forests. The department's varied programs work together using ongoing assessments of the condition of natural resources and challenges of an increasing population to plan protection strategies for California. CAL FIRE is responsible for protecting more than 31 million acres of California's privately-owned wild lands and providing emergency services of all kinds through local government agreements within 36 of California's 58 counties.

## CAL FIRE's Office Revolving Fund

CAL FIRE currently has a \$13,400,000 revolving fund authority. The revolving fund balance is comprised of the general revolving fund account, with a balance of \$10,850,000 and the Forestry Trust Account, with a balance \$2,550,000. The general revolving fund is used to pay for travel expense claims, salary advances, travel advances, uniform advances, training registration, and other miscellaneous items. The Forestry Trust Account is used to pay for emergency fire workers.

Government Code section 19838 requires reimbursement to the State of overpayments made to employees. Employee overpayments can result from ORF salary and travel advances, and from payroll warrants issued by the SCO. Departments are required to notify employees (in writing) of overpayments and provide them an opportunity to respond. Employees can satisfy the amount due by payment in cash, check, or payroll deduction. Departments should attempt to negotiate a repayment plan acceptable to both parties. Written notification of overpayment to the employee must be initiated within three years from the date of overpayment.

As of June 30, 2008, CAL FIRE's accounting records show that its ORF had an outstanding balance of \$1.44 million. According to CAL FIRE's records, the following breakdown represents the age of the outstanding balances as of June 30, 2008.

<b>AGING REPORT FOR CAL FIRE OUTSTANDING REVOLVING FUND BALANCE As of June 30, 2008</b>			
<b>Age</b>	<b>Number of Outstanding Transactions</b>	<b>Percent of Balance</b>	<b>Balance</b>
< 61 days	1,943	60.78%	\$ 874,131.35
61 – 90 days	374	10.04%	144,439.59
91 – 120 days	242	6.89%	99,080.35
121 – 365 days	325	11.24%	161,622.58
1 – 2 years	179	4.63%	66,557.35
2 – 3 years	63	1.83%	26,347.91
3 – 4 years	38	1.14%	16,448.08
4 – 5 years	18	0.47%	6,815.50
5 – 6 years	14	0.22%	3,232.85
6 – 7 years	20	0.30%	4,277.61
7 – 8 years	13	0.51%	7,266.22
8 – 9 years	12	0.15%	2,121.39
9 – 10 years	13	0.39%	5,628.80
10 – 15 years	69	0.85%	12,218.47
> 15 years	52	0.56%	8,007.09
<b>Totals</b>	<b>3,375</b>	<b>100.00%</b>	<b>\$ 1,438,195.14</b>

### **Audit Authority**

The SCO audit was conducted pursuant to Government Code section 12418, which stipulates that the State Controller shall direct and superintend the collection of all money due the State. In addition, Government Code section 12410 stipulates that the State Controller shall audit all claims against the State, and may audit the disbursement of any State money for correctness and legality and for sufficient provision of law for payment.

### **Objectives, Scope, and Methodology**

The audit was performed in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were to determine whether CAL FIRE has internal controls in place to ensure that:

- Written policies and procedures exist for properly administering and controlling the revolving fund;
- Revolving fund regulations, policies, and guidelines are properly followed;

- Advances to the revolving fund are properly administered;
- The revolving fund is used for authorized purposes only;
- Accountability for the revolving fund is maintained;
- The revolving fund is reimbursed in a timely manner; and
- Revolving fund reimbursement claims are properly supported.

The scope of our audit included a review of government and CAL FIRE policies, processes, procedures, and practices relative to its general revolving fund and Forestry Trust Account (FTA). We did not review CAL FIRE's practices and procedures relative to its petty cash accounts, as CAL FIRE maintains 107 petty cash accounts and the amounts involved do not appear to be material.

We performed the following procedures:

- Reviewed pertinent statutes, regulations, and written policies and procedures as they relate to the revolving fund.
- Reviewed and analyzed relevant audit reports issued by the CAL FIRE Internal Audits Office including a report on the revolving fund and a Financial Integrity and State Managers Accountability Act (FISMA) report.
- Documented a description of the internal controls over the revolving fund using an internal control questionnaire, walk-throughs, and flowcharting of the various revolving fund processes.
- Reviewed and analyzed CALSTARS accounting reports of CAL FIRE's outstanding revolving fund transactions.
- Interviewed responsible officials at CAL FIRE headquarters, including the Chief of Program Accountability and several managers and staff from the Departmental Accounting Office, as well as the administrative officers and finance and personnel staff at four remote CAL FIRE units.
- Performed tests of transactions for the period of January 2008 through December 2008 to ensure that advances to the revolving fund are properly administered, the fund is used for authorized purposes only, accountability is maintained, the fund is reimbursed in a timely manner, and reimbursement claims are properly supported.
- Selected a sample of 116 of 1,204 records (10%) of uncollected revolving fund disbursements to determine the reason why amounts have not been collected in a timely manner.
- Selected a sample of 62 of 6,660 records (1%) of fully processed revolving fund disbursements to determine compliance with relevant policies and procedures.

**Conclusion**

The SCO audit found that CAL FIRE demonstrates poor accountability and puts forth inadequate efforts to ensure that outstanding revolving fund amounts are accounted for, collected, and processed accurately and in a timely manner. Additionally, a high risk of misappropriation of State funds exists because CAL FIRE's internal controls over the revolving fund transactions are virtually non-existent.

CAL FIRE's revolving fund internal control deficiencies are not new. In October 2005, CAL FIRE's Internal Audits Office issued a report on the department's revolving fund describing many similar deficiencies. Management has not taken appropriate action to ensure that outstanding revolving fund amounts are collected and processed in a timely manner. With the possible exception of providing some training, the SCO audit found no evidence that CAL FIRE has implemented any of the internal auditors' recommendations.

The scope of this SCO audit is limited to CAL FIRE's processes and procedures relative to its ORF. However, the seriousness of the control deficiencies disclosed in this report raised questions about the soundness and integrity of other aspects of CAL FIRE's fiscal operation.

**Views of  
Responsible  
Officials**

The SCO issued a draft report on June 19, 2009. Del Walters, Director, responded by letter dated July 1, 2009 (attached). Mr. Walters agreed with the results of the audit and stated that the department has already taken action to address some of the issues identified in this report. Mr. Walters also stated that the department is fully committed to take appropriate action to resolve all of the issues noted.

**Restricted Use**

This report is intended solely for the information and use of CAL FIRE and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

July 29, 2009

# Findings and Recommendations

**FINDING 1—  
CAL FIRE  
demonstrates poor  
accountability and  
inadequate efforts to  
ensure outstanding  
revolving fund  
amounts are  
accounted, collected,  
and processed  
accurately and in a  
timely manner.**

The SCO audit found that the amount of CAL FIRE's outstanding Office Revolving Fund (ORF) balance continues to rise, from \$1.44 million as of June 30, 2008 to \$1.69 million as of March 10, 2009. Further analysis disclosed that the age of the outstanding accounts also increased significantly. As of June 30, 2008, \$564,000 of the \$1.44 million (39%) in outstanding ORF account transactions was comprised of accounts more than 60 days old. As of March 10, 2009, \$1.22 million of the \$1.69 million<sup>1</sup> (72%) in outstanding balance was comprised of accounts more than 60 days old, as shown below:

<b>AGING REPORT FOR CAL FIRE OUTSTANDING REVOLVING FUND BALANCE As of March 10, 2009</b>			
<b>Age</b>	<b>Number of Outstanding Transactions</b>	<b>Percent of Balance</b>	<b>Balance</b>
< 61 days	863	27.61%	\$ 465,718
61 – 90 days	798	20.74%	349,888
91 – 120 days	613	12.36%	208,472
121 – 365 days	1,442	25.92%	437,226
1 – 2 years	222	6.26%	105,578
2 – 3 years	86	2.35%	39,713
3 – 4 years	51	0.82%	13,904
4 – 5 years	24	0.86%	14,438
5 – 6 years	19	0.44%	7,351
6 – 7 years	18	0.26%	4,445
7 – 8 years	17	0.31%	5,277
8 – 9 years	10	0.24%	4,063
9 – 10 years	15	0.40%	6,789
10 – 15 years	66	0.63%	10,647
> 15 years	64	0.80%	13,498
<b>Totals</b>	<b>4,308</b>	<b>100.00%</b>	<b>\$ 1,687,006</b>

CAL FIRE's Departmental Accounting Office (DAO) considers amounts to be delinquent after 120 days. The 120-day timeframe appears to be excessive, as an overwhelming portion of the outstanding balance is related to salary and routine, non-emergency travel advances, which should be collected in the following pay period but are subject to bargaining unit limitations. In some instances, the delay in collecting salary and travel advances and overpayments resulted in interest-free loans to the employees. We found several travel advances where the excess travel payment was not deducted from payroll, and several occasions in which outstanding amounts were not properly collected from separating employees. In addition, we found that some employees received both a salary advance and a warrant.

<sup>1</sup> The \$1.69 million includes advances due to seasonal firefighters resulting from the cyclical events of fire season.

Specifically, the SCO audit disclosed the following deficiencies:

- CAL FIRE does not have adequate controls in place to ensure adherence with established policies and procedures for processing ORF disbursements and collecting overpayments. The SCO auditors selected two samples, one from the listing of ORF checks that have not been cleared from its formal accounting records (CALSTARS) and one from its regular disbursement. Both samples identified high audit exception rates:
  - From a sample of 116 outstanding ORF checks, the SCO auditors found that 104 (89%) transactions contained audit exceptions that resulted in processing delays or failure to adhere to prescribed policies and procedures. Some of the 104 transactions contained multiple audit exceptions. Examples of such exceptions include a failure to provide written notification of overpayments and travel advances, and cases in which excess travel payments were not deducted from payroll after the prescribed time period of 30 days (see Appendix 2).
  - From a sample of 62 claims that were processed between April 2008 and August 2008, we found that 26 (42%) claims had the following exceptions: employees were not notified of overpayments; employees did not file in a timely manner their Travel Expense Claims; collection letters were not sent to employees requesting reimbursement; transmittals were not sent to headquarters in a timely manner; proper authorization and authorized signatures were not verified for checks issued; outstanding items were not cleared in a timely manner; and supporting documentation was not maintained to provide an audit trail. Some of the 26 claims contained multiple audit exceptions (i.e., an Accounts Receivable was not established; see Appendix 3).
- None of the unit or DAO staff members have current, accurate, and reliable data to effectively monitor the progress of collection efforts. Most units rely on their own tickler file which has proven to be ineffective. Outstanding revolving fund amounts are also monitored using the CALSTARS D06 (revolving fund outstanding report). Our audit found that the report is inaccurate and can not be used as a reliable means of tracking outstanding revolving fund amounts. Currently, CAL FIRE cannot use the report as an effective tool for clearing outstanding amounts because:
  - Headquarters frequently does not enter transactions into CALSTARS after the overpayments have been collected or the claims have been scheduled and reimbursed. This causes the outstanding amount on the revolving fund outstanding report (D06) to be overstated, and makes it appear as though the units have not collected amounts that, in fact, have been collected and sent to the DAO.

- Although the D06 report is distributed to the units on a monthly basis, the units do not spend much time clearing the report, as they know that the D06 report is inaccurate. The D06 report is also difficult to interpret, as it includes recent items that are in progress and not truly delinquent.
- The regional offices also receive the D06 report monthly, but they do not ensure that the units are promptly clearing outstanding items and providing explanations for items they are unable to clear.
- Collection letters are not sent out in a timely manner for non-state employees and periodic statements are not sent out to employees reminding them to file a travel expense claim (TEC) after completion of travel. In addition, direct deposits are not always held for employee receivables, and salary advances are not always deducted from the payroll warrants. Separation checks are issued without going through the clearing process. Also, Reports of Collection are not always submitted in a timely manner and Discharges from Accountability are not submitted as needed.
- TECs that are returned to the unit for correction are not always corrected and resubmitted to the DAO in a timely manner. DAO does not process any TECs with a discrepancy, regardless of the materiality. Therefore, partially supported TECs are not scheduled and sent to the SCO for payment of the partial claim, but are instead held indefinitely for corrections. In a sample of \$3,261.71 in TECs submitted by one unit to the DAO but disputed, \$2,476.77, or 76%, was substantiated and could have been submitted to the SCO for reimbursement. In a sample of \$5,106.11 in travel expense claims submitted by another unit to the DAO but disputed, \$4,807.85, or 94%, had proper substantiation and could have been submitted to the SCO for reimbursement.

The internal control deficiencies are supported by CAL FIRE's Internal Audits Office report on the department's revolving fund, issued in October 2005. The report found that:

The revolving fund is decentralized in many aspects. Units have the privilege of writing revolving fund checks, but do not have some of the responsibilities associated with that privilege, such as reconciling the account and resolving advances in a timely manner. The units are not uniform in their application of revolving fund criteria. Overall, it appears that the revolving fund is a low priority issue with most units, and there are outstanding travel, salary, and uniform advances overdue in most cases. For travel and salary advances, the auditors found that some of the amounts have been outstanding for more than a decade. A few are from former employees, some of whom are no longer living. Some have very little supporting documentation and little chance of every being collected.

Government Code section 19838 requires reimbursement to the State of overpayments made to employees. Employee overpayments can result from Office Revolving Fund salary and travel advances and payroll warrants issued by the SCO.

State Administrative Manual (SAM) section 8776.6 (Nonemployee Accounts Receivable, Collection Letters) states:

Once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30 day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

SAM section 8580.4 (Employee Separations) states:

Salary warrants will not be distributed to separating employees until the department had verified that all travel and salary advances have been paid (cleared). The verification must be provided by office revolving fund staff.

Government Code section 13940 states:

Any state agency or employee required to collect any state taxes, licenses, fees, or money owing to the state for any reason that is due and payable may be discharged by the board from accountability for the collection of taxes, licenses, fees, or money if the debt is uncollectible or the amount of the debt does not justify the cost of its collection.

Government Code section 13941 states:

The application for a discharge under this chapter shall be filed with the Controller. . .

Government Code section 19838 authorizes the State to withhold amounts owed for outstanding travel and salary advances from an employee's final separation pay.

Bargaining Unit 8, Section 12.3, states:

Any amount of a uniform advance that has been advanced to employees shall be deducted from their uniform allowance checks at their normal date of issue.

SAM section 8116.2 (Substantiation of Travel Expenses for Temporary Travel Advances) states:

1. A properly prepared travel expense claim (TEC) to substantiate the travel expenses must be submitted as soon as possible after the trip(s) or at least once a month.
2. If the travel advance exceeds the substantiated expenses, the employee must submit a check or money order with the TEC to return the excess travel advance amount.

SAM section 8116.3 (Recovery of Temporary Travel Advances) states:

If an employee does not submit TECs to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s).

Government Code section 19838(c) and SAM section 8776.7 limit payroll deductions to 25% of the employee's net (gross minus mandatory deductions) monthly or semi-monthly salary. Therefore, if the travel advance amount cannot be deducted entirely from the payroll warrant in one month, the maximum deduction will be made in every subsequent month's regular payroll warrant until the outstanding travel advance amount is recovered.

**FINDING 2—  
CAL FIRE's internal  
controls over the  
revolving fund  
transactions are  
virtually non-existent.**

The SCO audit found that CAL FIRE's internal control over ORF transactions are critically weak because of past management inattention. As a result of the numerous control deficiencies, virtually any employee at CAL FIRE's headquarters or one of its 21 field units with access and knowledge of the ORF could misappropriate significant sums of state funds for a long period of time without detection. Specifically, the SCO audit found:

- CAL FIRE does not have sufficient written policies and procedures governing ORF transactions. A comparison of the SAM revolving fund requirements with CAL FIRE's Personnel Handbook revealed that CAL FIRE lacks procedures for overpayment collections, overpayments to non-state employees, handling of uncashed ORF checks, and discharge of accountability as required by SAM sections 8042 (Safes and Vaults), 8072 (Shortages), 8710 (State Board of Control Claims), 8776.6 (Non-Employee Accounts Receivable), and 8776.7 (Employee Accounts Receivable).
- CAL FIRE does not maintain proper separation of duties with respect to its ORF. CAL FIRE has 21 units that share the same ORF with its headquarters. Most units have a limited staff and are unable to maintain proper separation of duties. For example, headquarters accounting staff members prepare checks, operate the check-signing machine, and disperse checks. Unit staff members receive deposits and prepare and distribute checks. In addition, the manager who approves advances can also prepare checks. Managers do not always review supporting documentation prior to signing checks for issuance.

SAM section 8080 (Separation of Duties) states:

No one person will perform more than one of the following seven types of duties:

1. Receiving and depositing remittances
2. Authorizing disbursements
3. Preparing checks
4. Operating a check signing machine
5. Comparing machine-signed checks with authorizations and supporting documents
6. Reconciling bank accounts and posting the General Ledger or any subsidiary ledger affected by cash transactions
7. Initiating or preparing invoices

- CAL FIRE does not properly safeguard check stock. Each unit maintains its own safe, but several staff members have access to the safe, which contains the check stock and checks for deposit. The safe combination is not changed on a periodic basis or when staff members leave employment with CAL FIRE.

SAM section 8024 (Safes and Vaults) states that the following standards apply to safes and vaults housing either cash or valuable documents:

1. The combination will be known to as few persons as possible consistent with operating requirements and the value of the cash or documents safeguarded.
  2. A record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination.
  3. The combination will be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the State agency, or no longer requires the combination in the performance of his or her duties.
- CAL FIRE does not perform a reconciliation of check stock and does not perform a physical inventory of check stock. Check stock is distributed to the units with no accounting for prior check stock usage. Check logs are not maintained by every unit.

SAM section 8080 (Separation of Duties) requires agencies to keep check stock under strict control at all times. Transfer of check stock between persons must be acknowledged by transfer receipts showing the check numbers of the stock transferred. These receipts will be kept by the transferor and transferee until the period covered has been audited.

SAM section 8081 (Check Signing Machine) states that the person who prepares checks will maintain a daily log of checks written.

- The unit safes are not anchored to the building. According to DAO staff, there has been at least one instance of fraud. In May 2002, the safe that kept check stock at San Bernardino was stolen by a paroled inmate who performed the janitorial service. The safe was not anchored to the building. Forty-four checks totaling approximately \$28,000 were written. CAL FIRE reported the stolen check stock to the State Treasurer's Office, and no checks were cashed to the CAL FIRE bank account. However, checks were cashed by local stores.

SAM section 8025 (Placement of Safes for Security Purposes) states:

As a deterrent to burglary, State agencies will securely anchor a safe to the building and, where practical, to the building's foundation.

- No per-check amount limits exist and no signature cards are required by the bank. Moreover, CAL FIRE does not verify signatures on

revolving fund checks against the list of authorized signers. Signature authorization cards are not updated in a timely manner and units do not retain copies of signature authorizations of some signers. Therefore, despite the fact that CAL FIRE imposes internal per-check amount limits, any person with access to ORF checks could prepare and negotiate checks with no dollar limit.

SAM section 8041 (Checks) states:

No person will sign checks until an authorization card bearing his signature has been prepared and filed by the agency.

- CAL FIRE accounting staff members do not perform bank reconciliations in a timely manner. At the time of our review, bank reconciliations were eight months in arrears. The last completed bank reconciliation, from April 2008, identified 118 reconciling items dating back to 2006 that had no explanations. In addition, stop-payments were not issued in a timely manner, resulting in \$116,000 in checks more than one year old for the revolving fund and general cash account, and \$10,000 for the Emergency Fire Time revolving fund.

SAM section 8193 (Reconciliations) states:

Two monthly reconciliations are required for revolving fund transactions. (See SAM Section 7920 [Types of Reconciliations].) The Revolving Fund Cash Book balance plus the general ledger balance of Account No. 1110, General Cash, and Account No. 1120, Agency Trust Fund Cash, will be reconciled to the General Checking Account in the centralized State Treasury System. Also, the revolving fund resources will be reconciled with the amount of cash advanced as shown in Account No. 1130 of the funds concerned.

SAM section 7923 (Bank Reconciliation) states:

The person reconciling the bank statement will trace every reconciling item between the bank and the agency's records and include an explanation [of each item] on the reconciliation.

SAM section 7901 (Reconciliations – General) requires:

All reconciliations be prepared monthly within 30 days of the preceding month. . . .

SAM section 7920 (Types of Reconciliations) states:

Agencies normally make two types of reconciliations: (1) reconciliation of agency accounts with records other than those prepared by the agency, such as reconciliation of account balances as shown in the agency's books with accounts in the centralized State Treasury System (CTS); and (2) reconciliation of two or more accounts or other records kept by an agency (such as reconciliation of Office Revolving Fund assets to the amount withdrawn).

SAM section 8045 (Stop Payments) states:

A Stop Payment Requests form, STD. 432 must be sent to the STO one week before the stale date of all uncashed checks.

- Revolving Fund deposits are not made in a timely manner. Out of a sample of 98 deposit receipts, 75 receipts (\$62,788.20, or 77%) were not deposited within the required ten working days. Additionally, seven out of ten sampled Reports of Deposit had more than \$10,000 in collections that were not deposited in a timely manner. Additionally, the Report of Deposit slips are not sent to the State Treasurer's Office (STO) immediately, as required by SAM. For example, a Report of Deposit slip sent to the State Treasurer's Office (STO) on March 2, 2009, included actual deposits from January 20, 2009, and February 2, 2009. Further, warrants are not always redeposited in a timely manner. Fifteen undeposited warrants for one employee (due to garnishments), totaling \$6,531, were not redeposited in a timely manner. Another warrant for \$2,364, dated in November 2004, was found undeposited at the unit in April 2009.

SAM section 8030 (Deposits – Introduction) states:

Agencies will comply with all the following applicable SAM sections regarding the preparation, depositing, reporting, and correction of deposits made into the CTS. It is imperative that agencies report deposits in a timely and accurate manner in order to expedite the reconciliation of their agency accounts and to maximize interest earnings.

SAM section 8032.1 (When to Deposit) states:

Agencies are required to deposit receipts in a timely and economical manner. . . . Agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first. . . . Accumulated receipts of any amount will not remain undeposited for more than ten working days. An agency may deposit more often than once a day at its discretion and when it is economical or practical to do so because of the size of its receipts.

SAM section 8033.2 (Completing the Report of Deposit Form) states that the trip (STO) copy of the Report of Deposit is to be sent to the STO immediately and that the credit to the Centralized State Treasury System cannot be recorded until Reports of Deposit forms are processed.

## Recommendations

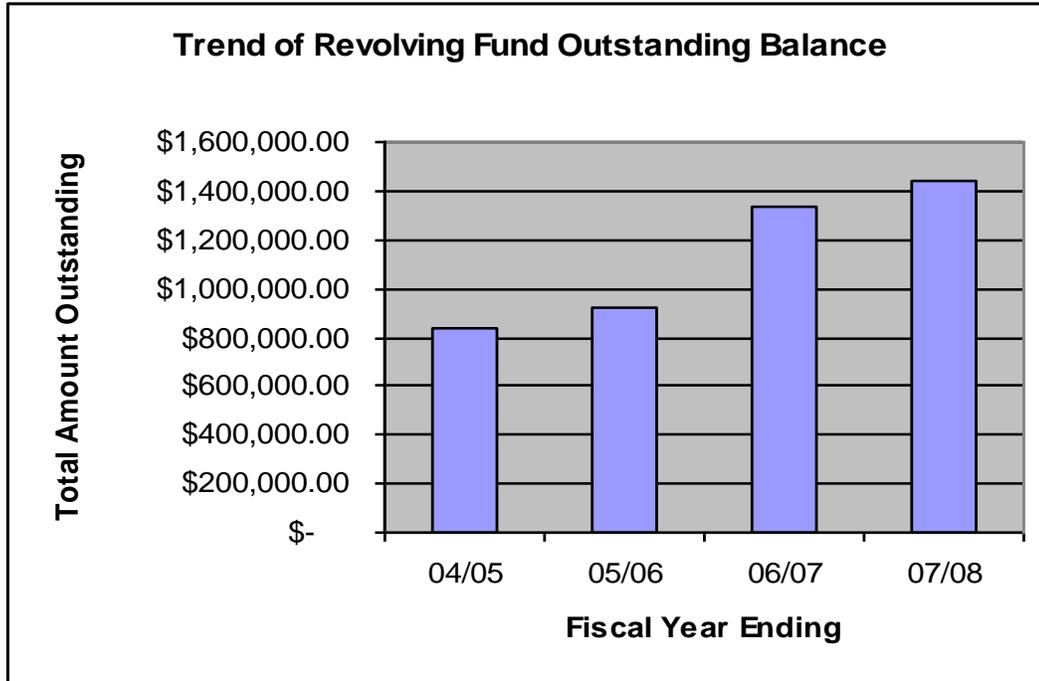
CAL FIRE should:

- Establish a centralized collection function in each of the two regional offices and clearly assign collection responsibilities.
- Increase the accuracy of the DO6 report so that it can be used as an effective tool for clearing outstanding amounts by:
  - Ensuring that CAL FIRE regional offices promptly clear any outstanding items for which units provide documentation to clear;
  - Removing outstanding items that are less than 180 days old from the DO6 report before forwarding it to the units, as those items are recent and may be in progress;
  - Having each unit carefully review the DO6 on a monthly basis and report status to both the regional offices and the DAO; and
  - Making the regional offices responsible for ensuring that units are responding to the DO6 on a monthly basis and clearing outstanding items or providing an explanation on the status of the revolving fund check.
- Develop a process to ensure that travel advances are cleared within 30 days with a TEC and that advances not cleared within 30 days are deducted from the next payroll warrant in accordance with applicable bargaining unit agreements.
- Ensure that the DAO continues to send dispute notices for TECs to the appropriate employee and unit. However, the DAO should consider performing claim cuts for the disputed portion of the TEC and submitting the remainder of the claim to the SCO for reimbursement in order to maximize reimbursement, and lessen outstanding revolving fund amounts. The DAO should work with the unit to resolve remaining discrepancies.
- Update its policies and procedures manual to ensure that all SAM revolving fund and collection regulations are specified and enforced, as well as provide appropriate training to staff on an ongoing basis.
- Ensure that the DAO fills vacant positions and cross trains staff members outside the unit, if necessary, in order to maintain proper separation of duties; ensure timely revolving fund reimbursement and timely entries into CALSTARS; and ensure sufficient, qualified staffing for the bank reconciliation function.
- Consider centralizing the revolving fund functions in the regional offices or at the headquarters.
- Develop and implement a policy for check stock and safes that includes limiting access to check stock, changing safe combinations, properly securing safes, maintaining a check log, and performing check stock physical inventories and reconciliations.

- Ensure that CAL FIRE processes for deposit include ensuring that every unit with an approved bank within a reasonable distance make its own deposits, that units deposit cash and checks at the prescribed dollar amounts and timeframes, that personnel staff ensure that all SCO warrants for redeposit are redeposited in a timely manner, and that units promptly log deposits at the time of receipt and prior to placing the deposits in the safe.
- Arrange for a comprehensive audit of all aspects of its fiscal operations pursuant to Section 20000 of the State Administrative Manual.

## Appendix 1— Trend of Revolving Fund Outstanding Balance

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## Appendix 2— Exception Type From Outstanding Checks Review

Type of Exception	Count	Outstanding Balance
Travel advance or excess travel payment was not deducted from payroll when the employee did not submit a TEC to substantiate the travel expenses within 30 calendar days or remit excess travel payment.	26	\$ 13,888.42
CAL FIRE did not always provide written notification of overpayments and provide employees an opportunity to respond (15 calendar days) and did not collect the payment from their next paycheck.	27	30,661.25
DAO did not request reimbursement from SCO for TEC partial payments that were not disputed.	17	10,149.12
Periodic statement was not sent to notify employees who had not submitted the TEC and/or had not returned any excess travel advance amount.	16	7,453.42
TEC has not been filed.	10	5,032.25
Evidence of record was not provided.	31	31,932.21
CAL FIRE was inconsistent in sending collect letters at 30 day intervals for both non-employees and employees.	6	6,431.56
CAL FIRE lacked proper communication and follow-up between headquarters and unit.	16	11,150.69
The amount owed by the separating employee was not deducted from the last salary warrant. In addition, the requirement to verify outstanding advance was not performed by revolving fund staff before issuance of final salary warrant.	1	645.56
Warrant was not re-deposited in a timely manner.	3	4,643.86
Reimbursement, voided, and in-lieu checks were not entered into CALSTARS system in a timely manner and correctly.	17	27,937.26
Advance was paid without proper approval.	2	1,225.00
Check was not issued for permissible use (e.g., employee not qualified for uniform advance; litigation costs paid using revolving fund).	2	1,748.44
Some claims cleared in 2007 and 2008 were not scheduled in a timely manner due to vacant position.	9	22,817.98
CAL FIRE did not discharge uncollectible overpayment.	1	46.36
CAL FIRE did not have a process to handle stale-dated revolving fund checks.	2	7,711.32
<b>Total</b>	<b>186</b>	<b>\$ 183,474.70</b>

NOTE: The SCO selected 116 outstanding revolving fund checks from CALSTARS D06 (the outstanding revolving fund file). The table above lists the exceptions found. Some items sampled had more than one exception type.

### Appendix 3— Summary of Exceptions for Completed Revolving Fund Transactions

Exception	Count	Balance
The DAO did not notify employees of overpayments and provide them an opportunity to respond and collect the payment from their next paycheck, if there was no response from the employee(s).	2	\$ 288
Employees failed to submit a TEC within 30 calendar days of the periodic statement date, or did not return any excess travel advance amount within the same 30 calendar days, and the excess travel advance amount or the travel advance amount was not deducted from the next regular payroll warrants.	8	4,735
The units did not send out collection letters in a timely manner.	3	1,651
The transmittal letter (AO-58) was not sent within 24 hours to notify HQ issuance of a revolving fund check.	3	3,039
The outstanding claim was not cleared on the D06 report by the DAO at CAL FIRE headquarters.	4	590
Proper authorization of signatures could not be verified with the signature cards.	10	10,039
Reimbursement or voided check was not entered into CALSTARS system correctly. This was not detected during the reconciliation because it was not performed timely due to position vacancy.	2	1,230
Outdated forms were used for salary advance requests. The form AO-123 should have been replaced by AO-107, as the AO-123 does not include an explanation for salary advance requests.	4	7,577
Supporting documents were not maintained at the unit.	2	1,461
<b>Total</b>	<b>38</b>	<b>\$ 30,610</b>

NOTE: The SCO selected 62 regular disbursements for revolving fund checks from CALSTARS D06 (the outstanding revolving fund file). The table above lists the exceptions found. There were a total of 26 transactions with exceptions although some items sampled had more than one exception.

**Attachment—  
CAL FIRE's Response to Draft Audit Report**

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## DEPARTMENT OF FORESTRY AND FIRE PROTECTION

P.O. Box 944246  
SACRAMENTO, CA 94244-2460  
(916) 653-7772  
Website: [www.fire.ca.gov](http://www.fire.ca.gov)



July 1, 2009

Mr. Andrew Finlayson, Chief  
State Agency Audits Bureau  
State Controller's Office  
P.O. Box 942850  
Sacramento, California 94250-5874

Re: DRAFT AUDIT REPORT – CAL FIRE REVOLVING FUND

Dear Mr. Finlayson:

On June 22, 2009, the California Department of Forestry and Fire Protection (CAL FIRE) received the draft report of the State Controller's Office (SCO) audit of the CAL FIRE Revolving Fund. Following is our response to the findings and recommendations presented in that report.

First, CAL FIRE management welcomes this audit by the SCO and has been anticipating the release of its findings and recommendations. We recognize that our Department has deficiencies in the oversight and maintenance of our revolving fund, and we have made it a top priority to correct these deficiencies and resolve all of the issues identified within the audit report.

Following a meeting on June 3, 2009, between members of my management team and your audit team to review the preliminary draft report, I instructed my management team to develop a plan to address the findings of the report. Subsequently, on June 10, 2009, I issued a memorandum to CAL FIRE Deputy Directors, Region Chiefs, Unit Chiefs, and the State Fire Marshal directing them to begin implementing a number of corrections with a due date of June 30, 2009 (a copy of the memorandum is attached). In addition, on June 10-11, 2009, members of my management team and I met with the leadership from CAL FIRE's Northern and Southern Regions to emphasize the importance of this audit and the critical need to address and correct the findings of this report.

As a result, beginning June 12, 2009, all 21 CAL FIRE field units, both region offices, various headquarters units, and the Departmental Accounting Office (DAO) began a comprehensive effort to address the findings as quickly as possible (a copy of the Corrections Checklist is attached). Following are the results of these immediate efforts:

CONSERVATION IS WISE—KEEP CALIFORNIA GREEN AND GOLDEN

PLEASE REMEMBER TO CONSERVE ENERGY. FOR TIPS AND INFORMATION, VISIT "FLEX YOUR POWER" AT [WWW.CA.GOV](http://WWW.CA.GOV).

Andrew Finlayson  
July 1, 2009  
Page Two

1. As of June 30, 2009, 19 of 21 units and one of the two region offices have changed the combination of all office safes. The other two units and region office are in the process of purchasing new safes. In addition, all field and headquarters units and both region offices have instituted a policy whereby the combinations of all these safes will be changed when a staff member who had access to the combination leaves the office. Further, during the first week of January every year from this point forward, all units and both region offices will annually certify that safe combinations have been changed in accordance with SAM. That certification will include a list of the individuals who have access to the current combination(s).
2. As of June 30, 2009, 19 of 21 units and one of the two region offices have ensured that their safes are attached securely to the building. The other two units and region office are in the process of purchasing new safes that will be attached to the building.
3. In each unit and at both region offices, a chief officer who does not have access to the safe and does not sign revolving fund checks has completed a check stock audit. Copies of the audit report, along with copies of the transfer receipts for the previous six months, are available for review.
4. Each unit and both region offices have developed a written Separation of Duties plan for deposits, receipts, collections, check preparation, initiating or preparing invoices, garnishments, disbursement of travel advances, payroll advances, and uniform advances that is in accordance with the SAM manual. The individual Separation of Duties plans, which include the position title of the person that performs each duty, are available for review.
5. Each unit and both region offices have developed logs for all revolving fund checks written within the last 18 months. Copies of the logs are available for review.
6. The Administrative Division Chief from each unit and both region offices has completed an audit on all signature cards for all employees authorized to sign checks. That audit includes CAL FIRE signature cards and signature cards for banks used by unit and region personnel. Copies of the lists of unit personnel who have signed checks in the previous six months and whether or not they possessed valid signature cards at the time they signed the checks are available for review.
7. Each unit and both region offices have developed a list of the name(s) of the approved bank(s) at which deposits are made. Any unit that does not make its deposits at a bank has submitted a description of the mechanism used to comply with the timelines in SAM to deposit cash and checks.
8. The Administrative Division Chief in each unit and at both region offices has completed an audit of the manner in which cash and checks are handled. Copies of the logs listing all the checks and cash received by the unit, the date the unit received them, and the date the unit deposited them are available for review.

9. The Administrative Division Chief in each unit and at both region offices has completed an audit of the SCO warrants captured in the unit prior to disbursement to an employee for the last 18 months to ensure that the warrants have been handled in accordance with the SAM manual. Copies of the logs listing the warrants, the date "captured," and the date deposited/returned to the SCO are available for review.
10. The Administrative Division Chief in each unit and at both region offices has developed a spreadsheet showing all the outstanding revolving fund items for his or her unit or office. The spreadsheet, which includes a comment that describes the status of each item and what actions have been taken relative to the collection process, is available for review.
11. DAO, while already producing a report for Revolving Fund A/R reconciliation by the field via the DO6 report, has designed a new, user-friendly report that separates data fields in a more usable format. This report identifies the employee by name and A/R number, the total balance of the A/R, and the remaining balance due broken out into various aging brackets of 30, 60, 90, and 120 days. While this new report will not completely resolve reconciliation issues in the first 30 days (since DAO receives collection information from the field in arrears), it will allow a more focused response by a user to manage reconciliation items and more importantly easily identify accounts that are reaching unacceptable age limits. We believe this report will resolve the technical recommendation of the SCO. DAO will also continue to provide ongoing annual training.
12. DAO has planned and defined each Revolving Fund role within its offices based on SAM Section 8080, Separation of Duties, and has redirected duties and tasks as necessary among existing staff to provide a full separation of duties. DAO's Separation of Duties Plan is available for review.
13. DAO has completed its own Check Stock Inventory and reported its results to the Assistant Deputy Director-Fiscal as of June 2009. DAO and management will keep a log of this inventory and update DAO's stock on a quarterly basis. Additionally, the requirement will be added into the Department's Accounting Procedures handbook as well.
14. The DAO position responsible for reconciling revolving fund bank statements had been vacant but is now filled. However, errors in the previous incumbent's work have required DAO to start the reconciliation process over from the beginning of the fiscal year. That clean up is complete, and the reconciliation of bank statements is now moving forward. DAO has completed October 2008 and is currently reconciling November 2008, with the goal of catching up and eventually meeting the recommended goal of 30-days of the preceding month.

Andrew Finlayson  
July 1, 2009  
Page Four

The SCO originally identified 122 items that needed to be reconciled from April 2009 and prior. Under the current reconciliation, this number has been reduced to approximately 78 items outstanding. Of this group, 40 issues remain to be addressed.

The remaining items reflect a gross value of \$565,645 and a net value of \$314,644, compared to the total Revolving Fund of \$15 million.

15. DAO's safe combination is known only to three Accounting Officers within the office. These employees are currently in positions requiring knowledge of the safe combination but are not allowed to write the combination down. No other employees know the combination. An updated record of those who know the combination is kept on file in DAO.

Given that the three management positions identified above are the only ones with knowledge of the safe combination, and given that none of the employees in these positions have separated or changed functions, DAO does not believe there is a need to change the safe combination at this time.

DAO has also instituted the same policy as CAL FIRE's regions and units, whereby the combination of the safe will be changed when a staff member who had access to the combination leaves the office. Further, DAO will annually certify that the safe combination has been changed in accordance with SAM. That certification will include a list of the individuals who have access to the current combination.

With regards to securing the DAO safe, this issue was not specifically noted in the SCO audit report. However, while the DAO safe is over six feet tall and weighs several hundred pounds, it is still on wheels and is not secured to the building floor. DAO will initiate a contract in the 2009-10 fiscal year (July 1, 2009) to hire a securing service to bolt the safe to the building to be consistent with SAM regulations on office safes.

In addition to the actions described above, through the implementation of CalATERS, CAL FIRE has been able to clear a number of outstanding travel advances, and Department management is seeking the assistance of the SCO regarding the writing off of older outstanding advances that cannot be cleared.

Also, although the SCO did not review CAL FIRE's practices and procedures relative to petty cash, the audit findings have underscored the need for our Department to look at all of its accounting controls and processes. Consequently, I have asked my management team to start with CAL FIRE's petty cash accounts. Currently, all units with petty cash accounts are in the process of reviewing and reconciling those accounts and providing a justification for keeping them. To date, we have eliminated 41 accounts, and will continue to look for ways to improve our internal controls.

Andrew Finlayson  
July 1, 2009  
Page Five

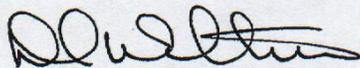
Another step that CAL FIRE has taken to improve our internal processes is to institute a training Administrative Officer position in our Northern Region. Typically, the Department experiences significant turnover in its unit administrative officer positions, which results in a relatively steep learning curve for new incumbents. In an effort to address this learning curve and to ensure consistent application of administrative policy and procedures statewide, CAL FIRE will use this training position to work with new Administrative Officers and provide administrative support where it is needed.

Finally, I want to express my commitment to resolving the issues identified in this audit. Contrary to statements made in the draft report, my Executive Management Team and I take this issue, as well as the report and its findings, very seriously, and we are committed to examining and improving CAL FIRE's internal controls. Since I was appointed as the Director of CAL FIRE in February of this year, I have had the opportunity to make a number of appointments to my management team, all of whom share in my belief that we must work to maximize efficiency and eliminate waste in all aspects of our department. Indeed, I am encouraged by the fact that, although, your report states the existence of a high risk of misappropriation of state funds, no actual instances of misappropriation were found.

In closing, I would like to thank you and your staff for the work that went into this audit. My Executive Team and I look at this as a prime opportunity to identify deficiencies and improve fiscal controls. I am confident that the corrections we have already completed and the efforts currently underway will demonstrate our commitment to resolving this critical issue completely. Furthermore, we will build on these efforts and work to fully resolve all of the remaining findings in the audit report. We welcome further discussion with the SCO about our progress to date and our plans for the future.

If you have any questions or need additional information or clarification regarding this issue, please contact Tony Favro, Chief of Program Accountability, at (916) 327-3989.

Sincerely,



DEL WALTERS  
Director

Attachments

cc: Crawford Tuttle, Chief Deputy Director  
Janet Barentson, Deputy Director, Management Services  
Ken Pimlott, Deputy Director, Fire Protection  
Candace Gregory, Southern Region Chief  
Bill Hoehman, Northern Region Chief  
Tony Favro, Chief of Program Accountability

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

**UNIT/REGION**

The Unit's Administrative Division Chief will complete the following audit and provide the requested information. The Unit Chief will review and sign the documentation as acknowledgement of its accuracy and that the practice will continue to be adhered to.

**1. SAM Section 8024 (Safes and Vaults) states that the following standards apply to safes and vaults housing either cash or valuable documents:**

- 1. The combination will be known to as few persons as possible consistent with operating requirements and the value of the cash or documents safeguarded.**
- 2. A record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination.**
- 3. The combination will be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the State agency, or no longer requires the combination in the performance of his or her duties.**

- The combination of all safes will be changed no later than June 15, 2009.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

- The combinations of all the safes will be changed when a staff member who had access to the combination leaves the office. During the first week in January, the Administrative Division Chief will send an annual certification to the Region's Finance Administrative Officer that the combinations were changed in accordance with the SAM along with a list of the individuals who have access to the current combination(s).

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**2. SAM Section 8025 (Placement of Safes for Security Purposes) states:**

**As a deterrent to burglary, State agencies will securely anchor a safe to the building and, where practical, to the building's foundation.**

- All safes are attached securely to the building.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

**3. SAM Section 8080 (Separation of Duties) requires agencies to keep check stock under strict control at all times and transfer of check stock between persons will be acknowledged by transfer receipts showing the check numbers of the stock transferred. These receipts will be kept by the transferor and transferee until the period covered has been audited.**

- A Chief Officer who does not have access to the safe and does not sign revolving fund checks has completed a check stock audit and included the audit report in Attachment 1 along with copies of the transfer receipts for the previous 6 months. If no one in the Unit is able to complete the audit, the Administrative Division Chief will contact their Region Office and request a check audit.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**4. SAM Section 8080 (Separation of Duties) states:**

**No one person will perform more than one of the following seven types of duties:**

1. Receiving and depositing remittances
2. Authorizing disbursements
3. Preparing checks
4. Operating a check signing machine
5. Comparing machine-signed checks with authorizations and supporting documents
6. Reconciling bank accounts and posting the General Ledger or any subsidiary ledger affected by cash transactions
7. Initiating or preparing invoices

**CAL FIRE Accounting Handbook Section 3742.3 (Separation of Duties) states:**

**Per SAM 8080: No one person will perform more than one of the following types of duties: (NOTE: MEMBERS OF THE SAME FAMILY ARE CONSIDERED AS ONE PERSON).**

1. Receiving and depositing remittances
2. Authorizing disbursements
3. Preparing checks
4. Operating a check signing machine
5. Comparing machine - signed with authorizations and supporting documents (or signing checks manually)
6. Initiating payment documents
7. Approving payment documents

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

- 8. Inputting payment information in CALSTARS**
- 9. Controlling blank check stock**

**SCO's Audit found that CAL FIRE was not maintaining proper separation of duties and that too many individuals had access to check stock. The custodian should be maintaining the check stock but should not be involved in any way in the preparing of checks. The Accounting Procedures Handbook will need to be updated to reflect this policy.**

- A written description of the Unit's Separation of Duties plan for deposits, receipts, collections, check preparation, initiating or preparing invoices, garnishments, disbursement of travel advances, payroll advances, uniform advances, garnishments, that is in accordance with the SAM manual is included in Attachment II. This includes the position title of the person that performs each duty.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

- 5. SAM Section 8081 (Check Signing Machine) states that the person who prepares checks will maintain a daily log of checks written.**

- Attach the log for the revolving fund checks written within the last 18 months in Attachment III.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

- 6. SAM Section 8041 (Checks) states:**

**No person will sign checks until an authorization card bearing his signature has been prepared and filed by the agency.**

- The Unit's Administrative Division Chief has completed an audit on all signature cards for all employees authorized to sign checks. A list of all Unit personnel who have signed checks in the previous 6 months and whether or not they possessed valid signature cards at the time they signed the checks should be included in Attachment IV. The review should include Departmental signature cards and signature cards for banks used by the Unit personnel

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

**7. SAM Section 8030 (Deposits – Introduction) states:**

**Agencies will comply with all the following applicable SAM sections regarding the preparation, depositing, reporting, and correction of deposits made into the CTS. It is imperative that agencies report deposits in a timely and accurate manner in order to expedite the reconciliation of their agency accounts and to maximize interest earnings.**

**SAM Section 8032.1 (When to Deposit) states:**

**Agencies are required to deposit receipts in a timely and economical manner. . . . Agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first. . . . Accumulated receipts of any amount will not remain undeposited for more than ten working days. An agency may deposit more often than once a day at its discretion and when it is economical or practical to do so because of the size of its receipts.**

- Please list the name of the approved bank(s) at which deposits are made. If deposits are not made at a bank, describe what mechanism the Unit uses to comply with the time lines in SAM to deposit cash and checks.

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- The Unit's Administrative Division Chief has completed an audit of the manner in which cash and checks are handled within the Unit. The log that lists all the checks and cash received by the unit, the date the unit received them and the date the unit deposit them is included in Attachment V.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

- The Unit's Administrative Division Chief has completed an audit of the SCO warrants captured in the Unit prior to disbursement to an employee for the last 18 months to check that the warrants have been handled in accordance with the SAM manual. The log that lists the warrants, the date "captured" and the date deposited/returned to the SCO is included in Attachment VI.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

- The Unit's Administrative Division Chief has attached a spreadsheet showing all the outstanding revolving fund items for their Unit. The spreadsheet includes a comment that describes the status of each item and what actions have been taken as it relates to the collection process.

Affirm: \_\_\_\_\_

Verified by Unit Chief: \_\_\_\_\_

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

**SACRAMENTO DAO HEADQUARTERS**

- 1. SCO Recommendation: Develop an aging report (30, 60, 90, 120 days) forjield use to pull information on Revolving Fund.**

Responsibility: Fund Control Supervisor/DAO systems unit.

- Implementation: Accounting will develop and make ready a report by approximately June 30, 2009. This will be in an HFD format. Long-term possible Monarch reports will be explored if needed and if HFD doesn't work.

Affirm: \_\_\_\_\_

Verified by Assistant Deputy Director: \_\_\_\_\_

- 2. SCO Recommendation: Develop a chart of Revolving Fund duties based on "separation of duties (SAM 8080). " Assign primary and alternate staff to perform these duties.**

Responsibility: The supervisor in each unit that has revolving fund functions.

- Implementation: Accounting will plan and define each Revolving Fund role within DAO and will redirect duties and tasks as necessary among existing staff to provide a full separation of duties.

Affirm: \_\_\_\_\_

Verified by Assistant Deputy Director: \_\_\_\_\_

- 3. SCO Recommendation: Require the appropriate staff to complete AO-236 (Check Stock Inventory) on a quarterly, semi-yearly, or annual (or other time base). Add required dates to CAL FIRE Section 3742 (Revolving Fund). Have DAO keep a database on dates AO-236 is received from units and follow-up as needed.**

Responsibility: DAO - Staff are responsible for database responsibility and to perform the AO-236 review.

- Implementation: Will begin stock check immediately and updates to the Accounting Handbook section will be added to provide regular deadline dates for ongoing checks.

Affirm: \_\_\_\_\_

Verified by Assistant Deputy Director: \_\_\_\_\_

**AUDIT CORRECTIONS CHECKLIST  
UNIT, REGION, AND HEADQUARTERS' OFFICE REQUIREMENTS**

**4. SCO Recommendation: Reconciliation of Revolving Fund to within 30 days of the preceding month.**

Responsibility: DAO Fund Control.

- Implementation: Will prepare monthly status reports for Management review that define current status, which months have been reconcile, and which are outstanding.

Affirm: \_\_\_\_\_

Verified by Assistant Deputy Director: \_\_\_\_\_

**5. SCO Recommendation: SAM Section 8024 (Safes and Vaults) states that the following standards apply to safes and vaults housing either cash or valuable documents:**

- 1. The combination will be known to as few persons as possible consistent with operating requirements and the value of the cash or documents safeguarded.**
- 2. A record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination.**
- 3. The combination will be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the State agency, or no longer requires the combination in the performance of his or her duties.**

Responsibility: Accounting Management

- Implementation: The DAO Safe combination is currently known by three managers only and the safe is physically secured. Management will implement a regular changing of the combination to ensure security, which will be verified regularly by division management.

Affirm: \_\_\_\_\_

Verified by Assistant Deputy Director: \_\_\_\_\_

**DEPARTMENT OF FORESTRY AND FIRE PROTECTION  
REVOLVING FUND OUTSTANDING  
AS OF 6/23/09**

6/30/2009

Index/Group: 9411

FY	Vendor	Doc Date	Chk No	Object	Src	Original	Balance	Less 30	Age 30	Age 60	Age 90	Age 120+
	█	5/27/09	543712			300.00	300.00	0.00	300.00	0.00	0.00	0.00
	█	12/29/06	496477			1,300.00	570.56	0.00	0.00	0.00	0.00	570.56
	█	6/18/09	543776			700.00	700.00	700.00	0.00	0.00	0.00	0.00
			<b>Total By GL</b>			<b>2,300.00</b>	<b>1,570.56</b>	<b>700.00</b>	<b>300.00</b>	<b>0.00</b>	<b>0.00</b>	<b>570.56</b>
			<b>Total By Index:</b>			<b>2,300.00</b>	<b>1,570.56</b>	<b>700.00</b>	<b>300.00</b>	<b>0.00</b>	<b>0.00</b>	<b>570.56</b>
			<b>Total Index Group:</b>			<b>2,300.00</b>	<b>1,570.56</b>	<b>700.00</b>	<b>300.00</b>	<b>0.00</b>	<b>0.00</b>	<b>570.56</b>

## Memorandum

To: Deputy Directors  
Assistant Deputy Directors  
Region Chiefs  
Assistant Region Chiefs  
Unit Chiefs  
State Fire Marshal  
Assistant State Fire Marshal

From: DEL WALTERS, Director  
Department of Forestry and Fire Protection

Date: June 10, 2009

Telephone: (916) 653-7772

Website: [www.fire.ca.gov](http://www.fire.ca.gov)

Subject: 2009 State Controller's Office Revolving Fund Audit – Due June 30, 2009

As some of you are aware, the State Controller's Office, Division of Audits performed an audit of CAL FIRE's Revolving Fund. The Department was selected for audit due to the very large balance of outstanding revolving fund transactions. The auditors identified a number of findings in which the Department is out of compliance with the State Administrative Manual and the Government Code. The primary findings are summarized as follows:

1. CAL FIRE does not have adequate controls in place to ensure compliance with State policies and procedures for processing and collecting overpayments. Of the auditor's testing sample, 89 percent of the items contained one or more exceptions to established state policies.
2. There is inadequate separation of duties of staff responsible for authorizing, preparing and signing revolving fund checks.
3. The Revolving Fund is not reconciled on a monthly basis. The Department Accounting Office does not adequately maintain the CALSTARS Revolving Fund Outstanding Report, and Units do not take the time to verify the validity of the information on the report.
4. Collection letters are not sent out in a timely manner, resulting in the late collection or lack of collection of outstanding advances.
5. Check stock is not adequately secured or reconciled.
6. Office safes are not always adequately secured, nor is the combination changed as needed with the transition of staff.

Deputy Directors, etc.  
Page Two  
June 10, 2009

The auditors further noted that similar findings were identified in an internal audit performed by the Program Accountability Unit in 2005, but there is no evidence CAL FIRE management has taken action to implement the internal auditor's recommendations. In fact, since the release of the internal audit report, the outstanding amount of salary and travel advances has increased by 72 percent. The auditors conclude that there is a "very high risk of misappropriation of state funds" because of the lack of internal controls.

I take these issues very seriously. CAL FIRE has been fortunate to have received significant support from the Administration in these difficult times. In this fiscal climate, it is imperative that we guard ourselves from any waste or misuse of funds, be it actual or perceived.

Therefore, attached is a checklist of initial audit corrections which will be completed and certified by the Unit Chief or the appropriate Assistant Deputy Director. These corrections will be completed and returned to the Office of Program Accountability no later than June 30, 2009. The attached checklist does not resolve all of the audit findings and future direction on issues related to separation of duties and the collection of outstanding advances will be forthcoming.

I urge you to be diligent in completing these corrections. As with any audit, I anticipate the State Controller's Office auditors will be reviewing the corrective actions we are taking and validating our efforts. It is imperative we make every effort to remedy these findings. Unless these audit findings are resolved, the Department could face further audit inquiries on other administrative functions or possible loss of our delegated authority.

If you have any questions regarding this issue, please contact Tony Favro, Chief, Office of Program Accountability, at (916) 327-3889.

Attachment

Cc: Crawford Tuttle, Chief Deputy Director  
Tony Favro, Chief, Office of Program Accountability

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**