



JOHN CHIANG
California State Controller

June 23, 2010

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

Dear Chief Walters:

Below are the results of a follow-up review by the State Controller's Office (SCO) of our 2009 review of the Department of Forestry and Fire Protection's (CAL FIRE) administrative and accounting controls over the Office Revolving Fund (ORF).

The SCO conducted the review to ensure the findings and recommendations in the SCO's 2009 report have been adequately addressed. We reviewed and analyzed CAL FIRE's written response, dated July 2009, which detailed actions that Cal FIRE has taken to address the issues identified in our report. We interviewed managers in the accounting division to discuss the current status of our recommendations. We also prepared and compared the ORF receivable aging report as of March 10, 2009, with the aging report as of February 16, 2010. In addition, we requested and reviewed documents from the five locations we visited during the 2009 review. We did not perform substantive testing to verify information provided.

Our follow-up review results are as follows:

Recommendation 1

CAL FIRE should establish a centralized collection function in each of the two regional offices and clearly assign collection responsibilities.

Status:

Our follow-up review found that the collection function for ORF outstanding advances has not been centralized to either the Division of Accounting Office (DAO) in headquarters or the regional offices. Regional offices and units are still responsible for the collection function.

The CAL FIRE manager stated that CAL FIRE is currently strengthening the collection process in both personnel and accounting. Once the action is completed, CAL FIRE plans to centralize to headquarters the process of sending outstanding notices to employees, and headquarters will withhold an employee's paycheck if an employee owes money. The regional offices and units will be responsible for informing headquarters of the employees who owe money. The regional offices and units will continue to receive payments. However, management does not have an implementation timeline on the plan.

We prepared and compared the ORF receivable aging schedule as of March 10, 2009 (during 2009 review) with the ORF receivable aging schedule as of February 16, 2010 (during current follow-up review). See the attached for the comparison. As shown in the attached schedule, the overall ORF receivables have been reduced by 25% since the 2009 review. The 25% decrease in overall ORF receivables is mainly attributed to an 85% reduction in travel advances. According to management, implementation of CalATERS has helped in collecting the travel advances, therefore reducing the amount of travel advances.

However, the overall ORF receivables for items older than three years have increased by 15%. It does not appear that CAL FIRE has been successful in collecting old items or discharging them. In addition, the reduction in ORF receivables related to salary advances is only 2% since our 2009 review. This shows that CAL FIRE has not significantly improved its collection effort related to salary advances. In addition, CAL FIRE continues to accumulate significant amounts in ORF receivables related to salary advances. For example, CAL FIRE increased ORF receivables by \$111,338 from February 16, 2009, to December 16, 2009, in the salary advance area. Collection of salary advances continues to be an issue.

Based on our review, we strongly recommend that CAL FIRE centralize the collection function as soon as possible.

Recommendation 2

CAL FIRE should increase the accuracy of the revolving fund outstanding report (D06) so 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 from the D06 report that are fewer than 180 days old before forwarding the report 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.

Status:

CAL FIRE responded that the Administrative Division Chief in each unit and at both regional offices has developed a spreadsheet showing all of the outstanding revolving fund items for his or her unit or office. The spreadsheet includes a comment that describes the status of each item and what actions have been taken relative to the collection process. In addition, DAO has designed a new report that separates data fields in a more useable format. This report identifies the employee by name and accounts receivable (AR) number, the total balance of the receivable, and the remaining balance due, broken out into various aging brackets of 30, 60, 90, and 120 days.

Recommendation 3

CAL FIRE should 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.

Status:

Our current review disclosed that with the implementation of CalATERS, CAL FIRE has been able to collect outstanding travel advances from those employees who are using CalATERS. As disclosed in Attachment A, CAL FIRE reduced total travel advance receivables by 85% since the 2009 SCO review.

CAL FIRE estimates an implementation date of May 1, 2010, to initiate payroll deductions for salary advances owed to CAL FIRE.

Recommendation 4

CAL FIRE should 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 reduce outstanding revolving fund amounts. The DAO should work with the unit to resolve remaining discrepancies.

Status:

CAL FIRE responded that immediately after the SCO issued its report on CAL FIRE, the DAO began performing claim cuts on disputed TECs.

Recommendation 5

CAL FIRE should update its policies and procedures manual to ensure that all State Administrative Manual (SAM) revolving fund and collection regulations are specified and enforced, and should provide appropriate training to staff on an ongoing basis.

Status:

CAL FIRE drafted new procedures within the departmental handbook relative to collections. CAL FIRE plans to send a mass e-mail to employees stating that policies and procedures have been updated. However, CAL FIRE still does not have a formal training process due to workload issues. In addition, the handbook does not cover a periodic statement which should be sent no less frequently than bi-monthly to notify employees who have outstanding travel advances and have not submitted a TEC to substantiate the expenses.

Recommendation 6

CAL FIRE should ensure that the DAO has appropriate staffing, and cross-train personnel outside of the unit, if necessary, in order to maintain proper separation of duties. We also recommended that CAL FIRE ensure timely revolving fund reimbursement and timely entries into CALSTARS, and provide sufficient, qualified staffing for the bank reconciliation function.

Status:

CAL FIRE responded that each unit and both regional offices have developed a written Separation of Duties plan for deposits, receipts, collections, check preparation, initiating or preparing invoices, garnishments, and disbursement of travel advances, payroll advances, and uniform advances that is in accordance with the SAM manual. The DAO provided a Separation of Duties sheet showing redirected duties and tasks as necessary among existing staff to provide for full separation of duties.

The DAO position responsible for reconciling revolving fund bank statements has been filled. The DAO brought bank reconciliations current as of March 2010. Presently, there are 92 unreconciled items. DAO does not know how many of the 92 unreconciled items were identified in SCO's report. The unreconciled items appear to be an issue. CAL FIRE should devote more effort to quickly resolve the unreconciled items.

The CAL FIRE manager stated that the DAO has no backlog for entering ORF transactions since they have converted the entire department to CalATERS. The field documents are usually entered within a couple of days of receipt.

Recommendation 7

CAL FIRE should consider centralizing the revolving fund functions in the regional offices or at headquarters.

Status:

Our follow-up review found that the revolving fund functions have not been centralized.

Recommendation 8

CAL FIRE should 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.

Status:

Our follow-up review disclosed that CAL FIRE instituted a policy whereby the combinations of all safes will be changed when a staff member who had access to the combination(s) leaves the office. Further, during the first week of January every year from this point forward, all units and both regional offices will annually certify that safe combinations have been changed in accordance with the State Administrative Manual (SAM). That certification will include a list of the individuals who have access to the current combination(s).

The regional offices and units have ensured that their safes are attached securely to the building. In each unit and at both regional 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. Each unit and both regional offices have developed logs for all revolving fund checks written.

Recommendation 9

CAL FIRE processes for deposit include ensuring that every unit with an approved bank within a reasonable distance makes its own deposits, that units deposit cash and checks at the prescribed dollar amounts and timeframes, that personnel ensure that all SCO warrants for redeposit are re-deposited in a timely manner, and that units promptly log deposits at the time of receipt and prior to placing the deposits in the safe.

Status:

CAL FIRE responded that each unit and both regional 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.

CAL FIRE further responded that the Administrative Division Chiefs in each unit and at both regional offices completed an audit of the manner in which cash and checks are handled. In addition, they performed another audit of the SCO payroll warrants withheld in the units (prior to disbursement to an employee) for the last 18 months to ensure that the warrants have been handled in accordance with SAM.

However, our follow-up review found that revolving fund deposits still are not made in a timely manner. All units in the southern region continue to send deposits to the Fresno Regional Office which then performs a central bank deposit. This process has caused significant delays in depositing cash receipts. A review of the February 2010 cash log of the Fresno Regional Office shows that the majority of receipts were not deposited within the required ten working days.

Recommendation 10

CAL FIRE should arrange for a comprehensive audit of all aspects of its fiscal operations pursuant to section 20000 of the State Administrative Manual.

Status:

A review of CAL FIRE's 2009 FISMA disclosed that CAL FIRE has not arranged for a comprehensive audit of all aspects of its fiscal operations. CAL FIRE's internal audit division is working on a departmental risk assessment to develop an audit plan for fiscal year 2010-11.

We hope you will find this information useful. If we can be of further assistance, please let us know. If you need additional information concerning this follow-up review please contact Cathleen Dinubilo, Audit Manager, at (916) 327-3928.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:wm

S10-SAA-902

Attachment—ORF Receivable Aging Schedules Comparison

ORF RECEIVABLE AGING SCHEDULES COMPARISON

	<u>0-60 Days</u>	<u>61 Days to 3 Years</u>	<u>3 Years or Longer</u>	<u>Total</u>
Overall:				
As of 03/10/2009	\$ 465,717.58	\$ 1,145,875.40	\$ 80,413.19	\$ 1,692,006.17
As of 02/16/2010	\$ 461,305.79	\$ 715,125.34	\$ 92,869.35	\$ 1,269,300.48
% Increase/Decrease	-1%	-38%	15%	-25%
GLAN 1710 Miscellaneous Expense:				
As of 03/10/2009	\$ 82,600.99	\$ 180,178.76	\$ 8,147.97	\$ 270,927.72
As of 02/16/2010	\$ 144,494.18	\$ 494,482.47	\$ 10,339.44	\$ 649,316.09
% Increase/Decrease	75%	174%	27%	140%
GLAN 1712 Travel Expense:				
As of 03/10/2009	\$ 211,742.69	\$ 690,631.68	\$ 26,905.18	\$ 929,279.55
As of 02/16/2010	\$ 32,065.04	\$ 77,830.41	\$ 25,741.63	\$ 135,637.08
% of Increase/Decrease	-85%	-89%	-4%	-85%
GLAN 1714 Salary Expense:				
As of 03/10/2009	\$ 171,373.90	\$ 275,064.96	\$ 45,360.04	\$ 491,798.90
As of 02/16/2010	\$ 284,746.57	\$ 142,812.46	\$ 56,788.28	\$ 484,347.31
% Increase/Decrease	66%	-48%	25%	-2%