JOHN CHIANG
California State Controller

June 23, 2010

Kevin Fujitani, Chief
Fiscal Systems and Consulting Unit
Operational Office
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Fujitani:

In July 2009, the State Controller's Office (SCO) completed an audit of the California Department of Forestry and Fire Protection's Office Revolving Fund (ORF) and identified significant internal control deficiencies and lapses in collection practices. To gain a broader understanding of State agency practices with respect to their ORFs, the SCO initiated a survey of eleven state agencies (listed in Attachment 1). The purpose of the survey was to identify and compare state agency practices for handling and processing ORF transactions and to identify issues, processes, or agencies that warrant further analysis or audit consideration.

We believe the survey results may be of interest to you, as the Fiscal Systems and Consulting Unit maintains state financial manuals and provides consultation and training to other state departments. We are aware of the workgroup convened by the Department of Finance to improve the efficiency and effectiveness of State agency collection systems and processes. Therefore, we share with you the following observations identified through our survey:

- Agencies did not collect ORF receivables on a timely basis. As almost all ORF receivables consist of employee/former employee salary and travel advances, agencies should have minimal ORF receivables outstanding. The eleven agencies surveyed reported a total of $13,314,579 in outstanding receivables as of March 31, 2009, or June 30, 2009[1]; $4,121,205 (30.95%) of which were outstanding for longer than 60 days. Of this amount, $543,461 (13%) had been outstanding for more than three years. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

[1] The ORF outstanding receivable date referenced is either March 31, 2009, or June 30, 2009, depending on the most recent detail of outstanding receivable files the reviewed agencies were able to generate.

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- The majority of agencies did not have adequate written procedures prescribing guidelines and providing direction to employees in the collection of ORF receivables. All eleven surveyed agencies stated that employees are to follow State Administrative Manual (SAM) requirements in collecting ORF receivables. While SAM imposes general requirements, the State agencies should prescribe more detailed procedures to assign responsibility and to provide guidance concerning the nature, timing, and extent of the procedures to be performed. Seven of the eleven agencies surveyed did not possess sufficient written procedures. A correlation appears to exist between adequately documented collection procedures and the amount of ORF receivables outstanding for more than 60 days. Three of the four agencies that did submit all or the majority of the required written policies and procedures had less than 20% of their ORF receivables outstanding for more than 60 days. In contrast, six of seven agencies that did not possess sufficient written procedures had 28% to 96% of their ORF receivables outstanding for more than 60 days.

- SAM section 8100 authorizes State agencies to establish an ORF subject to a limitation of 3% of its total appropriation without approval from the Department of Finance. Our survey found that, although the surveyed agencies' ORF limits did not exceed the 3% limitation, the ORF limit for seven of the eleven surveyed agencies appear to significantly exceed the agencies' operational needs. One agency has never reached 61% of its ORF limit over the last four years. On the other hand, one of the surveyed agencies consistently exceeded its ORF limit. When an agency's ORF limit is far in excess of its needs, the agency has little incentive to replenish its ORF by requesting reimbursements or collecting receivables in a timely manner.

- Seven of the eleven agencies did not provide adequate documentation to show that their monthly required bank reconciliations were prepared in a timely manner. In one extreme case, the bank reconciliation was more than one year late.

For your information, Attachment 2 provides a summary of the data provided by the eleven surveyed agencies.

We hope you will find this information useful. If you need additional information, please contact Cathleen Dinublio, Audit Manager, at (916) 327-3928.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

S10-SAA-901

Attachments:
Attachment 1—State Agencies Surveyed
Attachment 2—Outstanding Receivables in the Office Revolving Fund

cc: Will Kempton, Director
Department of Transportation
David Maxwell-Jolly, Director
Department of Health Care Services
J.A. Farrow, Commissioner
California Highway Patrol
Selvi Stanislaus, Executive Director
Franchise Tax Board
Stephen W. Mayberg, Director
Department of Mental Health
Bridgett Luther, Director
Department of Conservation
Lynn L. Jacobs, Director
Department of Housing and Community Development
Michael Peevey, President
California Public Utilities Commission
Patricia Haggerty, Assistant Division Director
Judicial Branch
Dr. Mark Horton, Director
Department of Public Health
George Valverde, Director
Department of Motor Vehicles

# Attachment 1—
# State Agencies Surveyed

Department of Transportation

Department of Health Care Services

California Highway Patrol

Franchise Tax Board

Department of Mental Health

Department of Conservation

Department of Housing and Community Development

California Public Utilities Commission

Judicial Branch

Department of Public Health

Department of Motor Vehicles

# Attachment 2—
# Outstanding Receivables in the Office Revolving Fund Aging Schedule as of March 31, 2009, or June 30, 2009 [1]

| Agency | Total Receivables | Age: 0-60 Days | Age: 61 Days to 3 Years | Age: More Than 3 Years | Percentage by Age: Less Than 60 Days | Percentage by Age: 61 Days to 3 Years | Percentage by Age: More Than 3 Years |
|---|---|---|---|---|---|---|---|
| Judicial Branch | $ 183,950.50 | $ 7,360.22 | $ 144,851.51 | $ 31,738.77 | 4.0% | 78.7% | 17.3% |
| Public Utilities Commission | 261,316.15 | 54,483.42 | 75,743.34 | 131,089.39 | 20.8% | 29.0% | 50.2% |
| Department of Mental Health | 200,863.55 | 42,213.79 | 141,423.36 | 17,226.40 | 21.0% | 70.4% | 8.6% |
| Department of California Highway Patrol | 2,600,379.91 | 1,178,557.76 | 1,332,577.05 | 89,245.10 | 45.3% | 51.2% | 3.4% |
| Department of Transportation | 3,209,562.00 | 2,084,006.54 | 911,388.86 | 214,166.60 | 64.9% | 28.4% | 6.7% |
| Department of Public Health | 896,394.63 | 643,171.78 | 253,222.85 | — | 71.8% | 28.2% | 0.0% |
| Department of Conservation | 330,651.37 | 238,632.26 | 65,412.54 | 26,606.57 | 72.2% | 19.8% | 8.0% |
| Department of Motor Vehicles | 1,933,564.41 | 1,716,603.10 | 184,111.34 | 32,849.97 | 88.8% | 9.5% | 1.7% |
| Franchise Tax Board | 2,876,267.07 | 2,440,546.10 | 435,280.51 | 440.46 | 84.9% | 15.1% | 0.0% |
| Department of Health Care Services | 808,461.27 | 774,728.57 | 33,732.70 | — | 95.8% | 4.2% | 0.0% |
| Department of Housing and Community Development | 13,168.27 | 13,070.48 | — | 97.79 | 99.3% | 0.0% | 0.7% |
| Total | $ 13,314,579.13 | $ 9,193,374.02 | $ 3,577,744.06 | $ 543,461.05 | 69.0% | 26.9% | 4.1% |

Source: Compiled from data provided by the surveyed agencies.

[1] The ORF outstanding receivable is as of either March 31, 2009, or June 30, 2009, depending on the most recent detail outstanding receivable files the 11 agencies were able to generate.