



Joint Legislative Audit Committee  
Office of the Auditor General

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**FINANCIAL AUDIT REPORT  
DEPARTMENT OF FORESTRY  
YEAR ENDED JUNE 30, 1978**

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT F-806.1

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

806.1

FINANCIAL AUDIT REPORT  
DEPARTMENT OF FORESTRY  
YEAR ENDED JUNE 30, 1978

MAY 1980



THOMAS W. HAYES  
AUDITOR GENERAL

# California Legislature

## Office of the Auditor General

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May 9, 1980

806.1

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Department of Forestry, year ended June 30, 1978.

The auditors are Curt Davis, CPA, Audit Manager; Michael Dendorfer, CPA; Romero Zamora; Ann Reicherter; Teri Yee; and Harriet Kiyon.

Respectfully submitted,

S. FLOYD MORI  
Assemblyman, 15th District  
Chairman, Joint Legislative  
Audit Committee

Attachment

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## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of Forestry. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The duties of the Division of Forestry that were within the Department of Conservation were transferred to the newly created Department of Forestry by Chapter 1300, Statutes of 1976. The principal objectives of the Department of Forestry are to prevent and suppress fires occurring on state-owned and private forest, brush, and grass-covered lands; to enforce forest practice rules; to provide forest advisory services; to conduct range improvement programs; to produce nursery stock; to manage state forests; and to underwrite forest and fire research programs.

The programs of the Department of Forestry are supported by registration fees, intergovernmental revenues, nursery sales, sales of forest products, and appropriations from the State's General Fund.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Department of Forestry as of June 30, 1978 and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Department of Forestry at June 30, 1978 and the results of operations and changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The columns on the accompanying financial statements captioned "Totals - Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The columns on the accompanying financial statements for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly, we do not express an opinion on them.

In connection with our examination, we also (1) made a study and evaluation of the Department of Forestry's system of internal accounting control and (2) performed tests of compliance with the Revenue Sharing and Antirecession Fiscal Assistance Acts and regulations as required by Sections I.C.3 and III.C.3 of the Audit Guide and Standards for Revenue Sharing and Antirecession Fiscal Assistance Fund Recipients issued by the Office of Revenue Sharing, U. S. Department of the Treasury. Based upon the above procedures, we noted no instance of noncompliance with the regulations.

  
WESLEY E. VOSS  
Assistant Auditor General

Date: June 30, 1979

Staff: Curt Davis, CPA  
Michael Dendorfer, CPA  
Romero Zamora

Ann Reicharter  
Teri Yee  
Harriet Kiyan

DEPARTMENT OF FORESTRY  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 1978  
 (With Unaudited Amounts for 1977)

ASSETS	Governmental Fund Types		Fiduciary Fund Type	Account Group	Totals (Memorandum Only)	
	General	Special Revenue	Trust	General Fixed Assets	June 30, 1978	June 30, 1977
Cash	\$10,427,679	\$164,969	\$358,903	\$ --	\$ 10,951,551	\$ 5,420,107
Accounts receivable	4,221,656	--	--	--	4,221,656	10,557,108
Allowance for deferred accounts receivable	(435,348)	--	--	--	(435,348)	(1,403,227)
Expense advance to employees	186,892	--	--	--	186,892	131,983
Due from other funds	13,029	--	--	--	13,029	--
Advance to Architecture Revolving Fund	--	--	--	4,673,272	4,673,272	4,305,840
Equipment	--	--	--	30,949,183	30,949,183	29,549,045
Improvements	--	--	--	46,282,218	46,282,218	45,015,251
Land	--	--	--	4,390,860	4,390,860	4,348,846
<b>Total Assets</b>	<b><u>\$14,413,908</u></b>	<b><u>\$164,969</u></b>	<b><u>\$358,903</u></b>	<b><u>\$86,295,533</u></b>	<b><u>\$101,233,313</u></b>	<b><u>\$97,924,953</u></b>
<b>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$ 5,698,022	\$ 24,747	\$ 524	\$ --	\$ 5,723,293	\$ 6,429,534
Due to other funds	--	13,029	--	--	13,029	--
Revenue collected in advance	717,769	--	--	--	717,769	--
Reimbursements collected in advance	288,697	35,650	--	--	324,347	--
Uncleared collections	550,938	--	--	--	550,938	3,855,166
<b>Total Liabilities</b>	<b><u>7,255,426</u></b>	<b><u>73,426</u></b>	<b><u>524</u></b>	<b><u>--</u></b>	<b><u>7,329,376</u></b>	<b><u>10,284,700</u></b>
Encumbrances Outstanding	<u>7,539,793</u>	--	--	--	<u>7,539,793</u>	<u>6,127,767</u>
Fund Equity:						
Investments in fixed assets	--	--	--	81,622,261	81,622,261	78,913,142
Reserved for construction	--	--	--	4,673,272	4,673,272	4,305,840
Designated for special trust	--	--	358,379	--	358,379	61,355
Fund balance - Undesignated	--	91,543	--	--	91,543	91,345
Operating clearing (Note 5)	(381,311)	--	--	--	(381,311)	(1,859,196)
<b>Total Fund Equity</b>	<b><u>(381,311)</u></b>	<b><u>91,543</u></b>	<b><u>358,379</u></b>	<b><u>86,295,533</u></b>	<b><u>86,364,144</u></b>	<b><u>81,512,486</u></b>
<b>Total Liabilities, Encumbrances Outstanding, and Fund Equity</b>	<b><u>\$14,413,908</u></b>	<b><u>\$164,969</u></b>	<b><u>\$358,903</u></b>	<b><u>\$86,295,533</u></b>	<b><u>\$101,233,313</u></b>	<b><u>\$97,924,953</u></b>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FORESTRY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES AND OPERATING CLEARING  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
 (With Unaudited Amounts for 1977)

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Expendable Trust	June 30, 1978	June 30, 1977
Revenues: (Note 2)					
Sale of forest products	\$ 4,606,040	\$ --	\$ --	\$ 4,606,040	\$ 3,004,320
Intergovernmental revenues	1,172,900	--	--	1,172,900	1,599,717
Fire suppression cost recovery	961,622	--	--	961,622	1,005,345
Nursery sales	254,149	--	--	254,149	174,121
Miscellaneous	62,067	--	--	62,067	54,608
Rental of state property	6,036	--	--	6,036	172,248
Registration fees	--	60,884	--	60,884	58,551
Receipts from depositors	--	--	339,327	339,327	220,309
Total Revenues	<u>7,062,814</u>	<u>60,884</u>	<u>339,327</u>	<u>7,463,025</u>	<u>6,289,219</u>
Other Financing Sources:					
Support appropriations (Note 3)	98,217,032	--	--	98,217,032	70,646,041
Reimbursements	49,236,396	--	--	49,236,396	36,956,746
Miscellaneous adjustments (Note 4)	1,083,123	35	--	1,083,158	7,020
Total Other Financing Sources	<u>148,536,551</u>	<u>35</u>	<u>--</u>	<u>148,536,586</u>	<u>107,609,807</u>
Total Revenues and Other Financing Sources	<u>155,599,365</u>	<u>60,919</u>	<u>339,327</u>	<u>155,999,611</u>	<u>113,899,026</u>
Expenditures: (Note 2)					
Current:					
Personal services	93,941,477	43,201	--	93,984,678	80,253,909
Operating expenses	38,254,136	17,450	37,734	38,309,320	23,693,836
Equipment	4,474,629	--	--	4,474,629	3,515,982
Fire protection contracts	9,602,232	--	--	9,602,232	7,227,314
Capital outlay	2,054,776	--	--	2,054,776	3,273,183
Total Expenditures	<u>148,327,250</u>	<u>60,721</u>	<u>37,734</u>	<u>148,425,635</u>	<u>117,964,224</u>
Excess of Sources over (under) Expenditures	7,272,115	268	301,593	7,573,976	(4,065,198)
Other Financing Uses:					
Intrafund transfers	(5,794,230)	--	(4,569)	(5,798,799)	(6,068,909)
Excess of Sources over (under) Expenditures and Other Uses	<u>1,477,885</u>	<u>268</u>	<u>297,024</u>	<u>1,775,177</u>	<u>(10,134,106)</u>
Fund Balance - July 1	--	91,345	61,335	152,680	114,098
Operating Clearing - July 1	(1,859,196)	--	--	(1,859,196)	8,008,132
Fund Balance - June 30	\$ --	\$ 91,613	\$ 358,359	\$ 449,972	\$ 152,680
Operating Clearing - June 30	<u>\$ (381,311)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (381,311)</u>	<u>\$ (1,859,196)</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FORESTRY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE AND OPERATING CLEARING - BUDGET AND ACTUAL  
GENERAL AND SPECIAL REVENUE FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance
Revenues: (Note 2)									
Sale of forest products	\$ 4,500,000	\$ 4,606,040	\$ 106,040	\$ --	\$ --	\$ --	\$ 4,500,000	\$ 4,606,040	\$ 106,040
Intergovernmental revenues	1,172,900	1,172,900	--	--	--	--	1,172,900	1,172,900	--
Fire suppression cost recovery	1,000,000	961,622	(38,378)	--	--	--	1,000,000	961,622	(38,378)
Nursery sales	272,810	254,149	(18,661)	--	--	--	272,810	254,149	(18,661)
Miscellaneous	135,000	62,067	(72,933)	--	--	--	135,000	62,067	(72,933)
Rental of state property	55,000	6,036	(48,964)	--	--	--	55,000	6,036	(48,964)
Registration fees	--	--	--	60,884	60,884	--	60,884	60,884	--
Total Revenues	7,135,710	7,062,814	(72,896)	60,884	60,884	--	7,196,594	7,123,698	(72,896)
Other Financing Sources:									
Support appropriation (Note 3)	154,778,771	98,217,032	(56,561,739)	--	--	--	154,778,771	98,217,032	(56,561,739)
Reimbursements	52,944,645	49,236,396	(3,708,249)	--	--	--	52,944,645	49,236,396	(3,708,249)
Miscellaneous adjustments (Note 4)	--	1,083,123	1,083,123	--	35	35	--	1,083,158	1,083,158
Total Other Financing Sources	207,723,416	148,536,551	(51,170,367)	--	--	--	207,723,416	148,536,586	(51,170,332)
Total Revenues and Other Financing Sources	214,859,126	155,599,365	(59,259,761)	60,884	60,919	35	214,920,010	155,660,284	(59,259,726)
Expenditures: (Note 2)									
Current:									
Personal services	95,245,004	93,941,477	1,303,527	35,588	43,201	(7,613)	95,280,592	93,984,678	1,295,914
Operating expenses	42,046,677	38,254,136	3,792,541	12,034	17,450	(5,416)	42,058,711	38,271,586	3,787,125
Equipment	4,496,825	4,474,629	22,196	--	--	--	4,496,825	4,474,629	22,196
Fire protection contracts	9,762,482	9,602,232	160,250	--	--	--	9,762,482	9,602,232	160,250
Capital outlay	3,227,783	2,054,776	1,173,007	--	--	--	3,227,783	2,054,776	1,173,007
Total Expenditures	154,778,771	148,327,250	6,451,521	47,622	60,651	(13,029)	154,826,393	148,387,901	6,438,492
Excess of Sources over (under) Expenditures	60,080,355	7,272,115	(52,808,240)	13,262	268	(12,994)	60,093,617	7,272,383	(52,821,234)
Other Financing Uses:									
Intrafund transfers	(7,135,710)	(5,794,230)	1,341,480	--	--	--	(7,135,710)	(5,794,230)	1,341,480
Excess of Sources over (under) Expenditures and Other Uses	\$ 52,944,645	1,477,885	\$(51,466,760)	\$ 13,262	268	\$(12,994)	\$ 52,957,907	1,478,153	\$(51,479,754)
Fund Balance - July 1									
Operating Clearing - July 1	--	--	--	91,345	91,345	--	--	91,345	--
		(1,859,196)		--	--			(1,859,196)	
Fund Balance - June 30	\$ --	\$ --	\$ --	\$ 91,543	\$ 91,543	\$ --	\$ --	\$ 91,543	\$ --
Operating Clearing - June 30	--	(381,311)		--	--		--	(381,311)	

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FORESTRY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Department of Forestry. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, a Fiduciary Fund Type, and an Account Group. The Department of Forestry accounts for only its portion of the two fund type categories. The State Controller maintains the central accounts for all state funds and annually publishes fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund and Special Revenue Funds are the Governmental Fund Types in the Department of Forestry.

General Fund

This fund includes all financial resources not accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is the Professional Foresters' Registration Fund which accounts for specific revenues and operating expenditures earmarked for the registration and regulation of certified professional foresters.

Professional Foresters' Registration Fund - This fund is used to account for fees collected by the State Board of Forestry for examinations, registration, and license renewals of professional foresters. The fees are used to finance the costs of the State Board of Forestry in licensing and regulating professional foresters.

The Governmental Fund Types are maintained on the modified accrual basis of accounting. These are some of its more significant elements:

#### Income

Throughout the fiscal year all income including revenues, transfers, and reimbursements, except for certain reimbursements which are recorded when billed, are accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

#### Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures including encumbrances outstanding against budget appropriations for which no goods or services have been received.

#### Liabilities

Retirement Plan - Regular employees of the department are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the department and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year totaled \$13,569,063.

Vacation and Sick Leave - Costs of vacation and sick Leave are charged when benefits are used rather than when they are earned.

#### FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity. The Fiduciary Fund Type for the Department of Forestry is the Special Deposit Fund.

## Special Deposit Fund

The department maintains the Special Deposit Fund to account for cash donations from individuals and from organizations earmarked for various programs that enhance state forests.

## ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. General fixed assets increased by a net of \$2,709,119 during the fiscal year.

### 2. BUDGETED REVENUES AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for revenues and detailed expenditure accounts reflect the Governor's Budget after allowing for adjustments by the Budget Act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

### 3. SUPPORT APPROPRIATION

Support appropriation is the portion of the General Fund which the legislative Budget Act allocated to the Department of Forestry.

### 4. MISCELLANEOUS ADJUSTMENTS

This account shows the difference between the net amount of revenues, expenditures, abatements, and reimbursements accrued as of the previous June 30 and the actual amount of revenues, expenditures, abatements, and reimbursements related to the prior year but obtained during the current fiscal year.

### 5. OPERATING CLEARING

This account is the connecting link between the books of the various state agencies and the central fund accounts of the State Controller's Office for the General Fund and other funds not accounted for entirely by one agency.

6. EXPENDITURES IN EXCESS OF BUDGET

For fiscal year 1977-78, expenditures of the Special Revenue Fund (Professional Foresters' Registration Fund) exceeded Budget authorization in the amount of \$13,029. Section 11006 of the Government Code and Section 32 of the Budget Act forbids making expenditures in excess of appropriations unless consent is first obtained from the Department of Finance. This authorization has not yet been obtained.

### OTHER INFORMATION

As an integral part of our examination, we reviewed the department's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the department in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles. Included in the management letter is a recommendation to resolve the situation described in Note 6.

The department concurs with the suggested operating improvements, recommendations, and adjusting entries.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps