



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
DEPARTMENT OF FINANCE
YEAR ENDED JUNE 30, 1979**

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-999.10**

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

999.10

FINANCIAL AUDIT REPORT
DEPARTMENT OF FINANCE
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

October 17, 1980

999.10

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 Finance, year ended June 30, 1979.

The auditors are Curt Davis, CPA and Geraldine Parks.

Respectfully submitted,

S. FLOYD MORI
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 Finance. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Department of Finance is legally authorized under Section 13000 of the Government Code. These are the department's objectives:

- To assist the Governor in developing and enacting the annual financial plan;
- To assess and maximize the efficiency and effectiveness of using resources for state-administered and state-financed programs;
- To provide economic, financial, and demographic information.

The Department of Finance is supported by 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 Finance as of June 30, 1979 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 Finance at June 30, 1979 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 column amounts on the accompanying financial statements captioned "Totals - Memorandum Only" for June 30, 1979 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.


WESLEY E. VOSS
Assistant Auditor General

Date: March 13, 1980

Staff: Curt Davis, CPA
Geraldine Parks

DEPARTMENT OF FINANCE
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUP

JUNE 30, 1979

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Types</u>		<u>Account Group</u>	<u>Totals (Memorandum Only)</u>
<u>ASSETS</u>	<u>General</u>	<u>Agency</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	<u>June 30, 1979</u>
Cash	\$ 48,762	\$81,897	\$860	\$ --	\$ 131,519
Accounts receivable	799,811	--	--	--	799,811
Due from local governments	310,135	--	--	--	310,135
Expense advances to employees	34,216	--	--	--	34,216
Advances to Architecture Revolving Fund	--	--	--	150,000	150,000
Equipment	--	--	--	561,691	561,691
Total Assets	<u>\$1,192,924</u>	<u>\$81,897</u>	<u>\$860</u>	<u>\$711,691</u>	<u>\$1,987,372</u>
 <u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 208,894	\$ --	\$ --	\$ --	\$ 208,894
Due to other funds	45,311	81,897	--	--	127,208
Due to local governments	250,002	--	--	--	250,002
Total Liabilities	<u>504,207</u>	<u>81,897</u>	<u>--</u>	<u>--</u>	<u>586,104</u>
Encumbrances Outstanding	<u>216,976</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>216,976</u>
Fund Equity:					
Reserve for construction	--	--	--	150,000	150,000
Investment in general fixed assets	--	--	--	561,691	561,691
Fund balance (Note 6)	--	--	860	--	860
Operating clearing (Note 4)	471,741	--	--	--	471,741
Total Fund Equity	<u>471,741</u>	<u>--</u>	<u>860</u>	<u>711,691</u>	<u>1,184,292</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$1,192,924</u>	<u>\$81,897</u>	<u>\$860</u>	<u>\$711,691</u>	<u>\$1,987,372</u>

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

DEPARTMENT OF FINANCE

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE AND OPERATING CLEARING
GOVERNMENTAL FUND TYPE AND EXPENDABLE TRUST FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Governmental <u>Fund Type</u>	Fiduciary <u>Fund Type</u> Expensible Trust	Totals (Memorandum Only) <u>June 30, 1979</u>
	General		
Revenues:			
Sale of documents	\$ 2,389	\$ --	\$ 2,389
Miscellaneous income	<u>97</u>	<u>--</u>	<u>97</u>
Total Revenues	<u>2,486</u>	<u>--</u>	<u>2,486</u>
Other Financing Sources:			
Support appropriations	46,134,753	--	46,134,753
Reimbursements	1,616,288	--	1,616,288
Miscellaneous adjustments (Note 3)	<u>42,354</u>	<u>--</u>	<u>42,354</u>
Total Other Financing Sources	<u>47,793,395</u>	<u>--</u>	<u>47,793,395</u>
Total Revenues and Other Financing Sources	<u>47,795,881</u>	<u>--</u>	<u>47,795,881</u>
Expenditures:			
Personal services	9,339,364	--	9,339,364
Operating expenses and equipment	1,810,179	--	1,810,179
Payments to counties for cost of trials	529,854	--	529,854
Chapter 332/78, Section 35.5 Allocations to special districts	<u>35,712,761</u>	<u>--</u>	<u>35,712,761</u>
Total Expenditures	<u>47,392,158</u>	<u>--</u>	<u>47,392,158</u>
Excess of Sources over (under) Expenditures	403,723	--	403,723
Other Uses:			
Intrafund transfers (Note 4)	<u>(2,491)</u>	<u>--</u>	<u>(2,491)</u>
Excess of Sources over (under) Expenditures and Other Uses	401,232	--	401,232
Fund Balance - July 1	--	860	860
Operating Clearing - July 1	<u>70,509</u>	<u>--</u>	<u>70,509</u>
Fund Balance - June 30	--	860	860
Operating Clearing - June 30	<u>\$ 471,741</u>	<u>\$ --</u>	<u>\$ 471,741</u>

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

DEPARTMENT OF FINANCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as Adjusted</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Sale of documents	\$ --	\$ 2,389	\$ 2,389
Miscellaneous income	--	97	97
Total Revenues	<u>--</u>	<u>2,486</u>	<u>2,486</u>
Other Financing Sources: (Note 2)			
Support appropriations	47,549,321	46,134,753	(1,414,568)
Reimbursements	2,384,002	1,616,288	(767,714)
Miscellaneous adjustments (Note 3)	--	42,354	42,354
Total Other Financing Sources	<u>49,933,323</u>	<u>47,793,395</u>	<u>(2,139,928)</u>
Total Revenues and Other Financing Sources	<u>49,933,323</u>	<u>47,795,881</u>	<u>(2,137,442)</u>
Expenditures: (Note 2)			
Personal services	10,203,531	9,339,364	864,167
Operating expenses and equipment	2,129,792	1,810,179	319,613
Payments to counties for cost of trials	600,000	529,854	70,146
Chapters 32/78, Section 35.5 Allocations to special districts	<u>37,000,000</u>	<u>35,712,761</u>	<u>1,287,239</u>
Total Expenditures	<u>49,933,323</u>	<u>47,392,158</u>	<u>2,541,165</u>
Excess of Financing Sources over (under) Expenditures	--	403,723	403,723
Other Uses:			
Intrafund transfers (Note 4)	--	(2,491)	(2,491)
Excess of Sources over (under) Expenditures and Other Uses	<u>\$ --</u>	401,232	<u>\$ 401,232</u>
Operating Clearing - July 1		<u>70,509</u>	
Operating Clearing - June 30		<u>\$ 471,741</u>	

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

DEPARTMENT OF FINANCE
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND

FOR FISCAL YEAR ENDED JUNE 30, 1979

	<u>Balance July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1979</u>
<u>ASSETS</u>				
Cash	<u>\$37,470</u>	<u>\$873,486</u>	<u>\$829,059</u>	<u>\$81,897</u>
<u>LIABILITIES</u>				
Due to other funds	<u>\$37,470</u>	<u>\$873,486</u>	<u>\$829,059</u>	<u>\$81,897</u>

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

DEPARTMENT OF FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Department of Finance. 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 a Governmental Fund Type, a Fiduciary Fund Type, and an Account Group. The Department of Finance accounts for only its portion of the Governmental Fund Type category. 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 is the Governmental Fund Type in the Department of Finance. This fund includes all financial resources not accounted for in another fund.

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

Income

Throughout the fiscal year all income, except for certain reimbursements which are accounted for when billed, is 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 its 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 \$1,212,722.

Vacation and Sick Leave - Costs of vacation and sick leave are charged when these 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 as a trustee. The Fiduciary Fund Type for the Department of Finance is the Special Deposit Fund which is subdivided into two funds. The first is an agency fund which is used to account for monies from the sales of data processing equipment. The other is an expendable trust fund which is used to account for monies for a workshop on Senate Bill 90.

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 \$109,685 during the fiscal year.

2. BUDGETED FINANCING SOURCES AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for financing sources and expenditures 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. MISCELLANEOUS ADJUSTMENTS

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

4. OPERATING CLEARING AND INTRAFUND TRANSFERS

The Operating Clearing account is the connecting link between the records of the various state agencies and the central fund accounts maintained by the State Controller for the General Fund and other funds not accounted for entirely by one agency. The balance at June 30 represents the net assets and liabilities for which the Department of Finance is accountable.

Intrafund transfers are cash receipts representing revenues which the department remitted to the State Treasury during the year.

5. LEASES

Future minimum rental payments required under operating leases are \$37,884. All commitments for operating leases have initial or remaining noncancellable lease terms ending on June 30, 1980.

For the fiscal year ending June 30, 1979, the total rental expenses for all operating leases, except for those with terms of a month or less that were not renewed, was \$23,010.

6. AGENCY FUND BALANCE

The State Controller's published statements for fiscal years ending June 30, 1978 and June 30, 1979 reflect a fund surplus. According to generally accepted accounting principles, all assets in an agency fund are related to liabilities. Thus, the statements reflect only assets and liabilities (without a fund balance) to conform with generally accepted accounting principles.

OTHER INFORMATION

As an integral part of our examination, we reviewed the accounting procedures and related system of internal accounting control at the Department of Finance and at the Department of General Services (which maintains the department's accounting records) to the extent we considered necessary to properly form an opinion concerning the fairness with which the Department of Finance's financial statements present its 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.

The department generally concurs with the suggested operating improvements 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