



MEMORANDUM

Date: September 9, 2014 File No. 4162

To: Rhonda Basarich, Chief
Office of Fiscal Services
707 3rd Street, 9th Floor
West Sacramento, CA 95605

From: Department of General Services
Office of Audit Services

Subject: **REVIEW OF THE SYSTEMS OF INTERNAL CONTROL FOR THE BUDGET CYCLE**

This report presents the results of our review of the systems of internal control of the Department of General Services (DGS) for the budget function. These systems are primarily administered by the Office of Fiscal Services (OFS). This review was conducted as part of the Office of Audit Services' biennial review of DGS' systems of internal control. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The objective of our review was to determine the adequacy and effectiveness of the systems of internal control for the budget transaction cycle. A transaction cycle is defined as the route by which a type of transaction flows from inception to final reporting. Because it is the primary source of funding for the department's operations, our review was limited to activities within the Service Revolving Fund.

Our review of the budget cycle primarily involved determining whether sufficient policies and procedures have been implemented to provide reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and, (3) financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual (SAM). Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. These actions should result in material errors and improper or illegal acts being prevented or detected and corrected within a timely period by employees in the normal course of performing assigned duties.

Based on the results of our fieldwork conducted over the period October 2, 2013 through March 6, 2014, we concluded that OFS has established adequate and effective systems of internal control over the budget function. OFS' systems of internal control provide reasonable assurance that assets are safeguarded, transactions are properly executed and recorded, and financial operations are conducted in compliance with SAM requirements.

To determine the adequacy and effectiveness of the systems of internal control for the budget cycle, we reviewed policies and procedures, interviewed parties involved, observed operations, tested records and transactions and performed other tests as deemed necessary. An audit guide issued by the Department of Finance was used to assist us in our evaluation of the systems of internal control. The audit guide identified the following three objectives that were evaluated during our review: (1) established policies and procedures exist for the budget cycle;

(2) the final approved budget is properly and timely entered into the department's budget/financial control records; and, (3) budget changes are properly approved and recorded. Further, we evaluated the fund reconciliation process for the 2014-15 Governor's Budget that was performed by OFS in fall 2013.

Our review included the verification that amounts appropriated in the final 2013/14 Budget Bill/Act were accurately recorded in DGS' financial control records. Specifically, we verified that the total amount appropriated for the support of DGS' operations was accurately recorded on the department's various financial planning, reconciliation and control documents, including a departmental Budget Report that tracks expenditures, encumbrances and allotments. For the 2013/14 fiscal year, \$1,054,057¹ was appropriated for the support of DGS' operations.

Management should be aware that controls cannot prevent all problems because they would not be cost-effective. Moreover, the effectiveness of controls changes over time. Limitations which may hinder the effectiveness of an otherwise adequate system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by an audit.

We greatly appreciated the cooperation and assistance provided by OFS' personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.



RICK GILLAM, CPA, CIA
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¹ The amount includes adjustments for employee retirement and compensation.