



MEMORANDUM

Date: March 27, 2008

File No. 8168

To: Deborah Baker, Deputy Director
Administration Division
707 3rd Street, 8th Floor
West Sacramento, CA 95605

From: Department of General Services
Office of Audit Services

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

This report presents the results of our review of the systems of internal accounting control for the Department of General Services' (DGS) budget function in effect as of November 16, 2007. 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 Auditing¹.

The objective of our review was to determine the adequacy and effectiveness of the systems of internal accounting 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 (SRF).

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 that was primarily conducted over the period October 10, 2007 through November 16, 2007, we concluded that OFS has established adequate and effective systems of internal accounting control over the budget function. The OFS' systems of internal accounting 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 accounting control for the budget cycle, we reviewed policies and procedures, interviewed parties involved, observed

¹ Per the referenced audit standards, an external quality assurance review was due to verify the OAS' compliance with the standards by January 1, 2007. Therefore, the OAS is not in full compliance with the standards pending the completion of an external assessment. The OAS' external assessment is planned for 2008.

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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.

Our review included the verification that amounts appropriated in the final 2007/08 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 2007/08 fiscal year, \$979,445,000 was appropriated for the support of DGS' operations, with \$718,655,000 of that amount payable from the SRF. Based on our sample tests, we also verified that Budget Change Proposal augmentations approved for the 2006/07 fiscal year were allocated to the appropriate DGS office/program.

Management should be aware that controls cannot prevent all problems because they would not be cost-effective. Moreover, the effectiveness of controls change 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 376-5058, or Andy Won, Management Auditor, at 376-5052.



RICK GILLAM, Chief
Office of Audit Services

cc: Will Bush, Director
Erika Sperbeck, Chief, OFS