



MEMORANDUM

Date: February 26, 2010

File No. 9166

To: Jim Martone, Acting 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 CASH RECEIPTS

This report presents the results of our review of the systems of internal control of the Department of General Services (DGS) for the collection of cash receipts (primarily checks). 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 the Department of General Services' (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 cash receipts transaction cycle. A transaction cycle is defined as the route by which a type of transaction flows from inception to final reporting.

Our review of cash receipt collection operations 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 completed in late October 2009, we concluded that OFS has established adequate and effective systems of internal accounting control over cash receipts. 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.

It should be noted that during our field visits to four operating units which directly process and deposit collections we identified a number of areas for improvement that, while not considered to be significant problems or weaknesses, needed to be addressed by unit management. These findings primarily involved policies and procedures which were not ensuring that: (1) only authorized depositors and reviewers perform collection activities; (2) deposit reviewers adequately document their review of the accuracy of individual deposits; and, (3) adequate records are maintained of employees having access to safes. Upon discovery, the areas of concern were discussed with appropriate management and staff who indicated that corrective action would be promptly taken to address our concerns and improve systems of internal

control. In January 2010, we performed additional follow-up work and determined that appropriate actions had been taken or were planned to be taken to address our concerns. Therefore, these issues are not further discussed in this report. The four operating units visited during our review were the: Office of Fleet and Asset Management (OFAM); Office of Administrative Hearings; Office of State Publishing; and, the California Building Standards Commission.

In addition to the areas of concern noted above, we developed concerns with OFAM's oversight of the collection processes used by a parking contractor. The DGS has contracted with a business to manage, supervise, collect public parking fees, provide materials and supplies and provide necessary qualified personnel to operate three parking facilities located in Sacramento. The OFAM has the responsibility for overseeing the contractor's compliance with the terms of the contract, including those provisions governing the deposit of collections to the credit of the DGS. Because of the large amount of cash (currency and coin) collections directly processed and deposited by the contractor, we performed an in-depth review of OFAM's contract management activities related to collections and visited the contractor's office to review its cash receipt operations.

In brief, we developed concerns that OFAM is not receiving from the contractor all of the monthly management and revenue reports required under the terms of the contract, such as daily lane and lost ticket reports. As a result, OFAM is not receiving sufficient information to verify that all applicable revenue is being deposited intact to the credit of the DGS. For example, OFAM is not receiving sufficient information to allow it to verify and obtain a reasonable explanation for missing or no charge tickets pulled by parkers entering the garages.

During our visit to the contractor, we analyzed one month of parking collection activities, April 2009, and identified 1,094 missing tickets and 124 no charge tickets of the 6,913 tickets pulled by parkers entering the three garages. The contractor did not provide any documentation/explanation for these tickets within the monthly deposit support information submitted to OFAM. However, its management advised us that two of the garages have a history of missing tickets, which is believed to be caused primarily by monthly parkers sharing their passes with other parkers to allow them to exit the lot without paying a parking fee. Further, they advised us that the no charge tickets probably are primarily the result of monthly parkers who forget their pass keys and pull a ticket to enter the garage and, subsequently, are allowed to exit by garage parking attendants without paying a parking fee.

At the time of our January 2010 follow-up work, we were advised by OFAM that it was in the process of preparing an action plan to address our concerns with its contract oversight process. We will continue to monitor this issue until resolution.

To determine the adequacy and effectiveness of the systems of internal control for cash receipts, we reviewed policies and procedures, interviewed parties involved, observed operations, tested records and transactions and performed other tests as deemed necessary. In addition to reviewing OFS' cash receipt process, we performed field visits to evaluate the collection activities performed by the previously discussed four operating units and the parking contractor. Our review of the DGS' bank statements for the months of July, August and September 2009 found that the OFS directly processed (deposited) approximately 80% of the \$58.5 million deposited over this period with the remaining amount directly deposited by various operating units, including those noted above that were visited during our audit fieldwork. The parking contractor directly deposited approximately \$130,000 to the DGS' bank account during this period representing collections from parkers at the three Sacramento area parking facilities.

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 six control objectives for cash receipts that were evaluated during our review: (1) procedures are established for collecting, safeguarding and depositing collections; (2) duties are clearly defined and adequate separation of duties exist; (3) all cash due is received and such amounts are authorized in accordance with State laws and regulations; (4) transactions are correctly recorded in the accounting records and accountability is maintained; (5) subsidiary records are reconciled with control accounts and bank statements; and, (6) State full cost recovery policies are adhered to.

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 and operating unit personnel.

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



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