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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 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 the 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, 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 three 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 ensuing that: (1) receipts are deposited timely; and, (2) deposit reviewers adequately document their review of the accuracy of individual deposits¹. 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.

¹ These samples were noted at the DSA-HQ.

In February 2017, we performed additional follow-up work and determined that appropriate actions had been taken or are planned to be taken to address our concerns. Therefore, these issues are not further discussed in this report. The three operating units visited during our review were the: Office of Fleet and Asset Management (OFAM); Division of the State Architect-HQ (DSA); and, Division of the State Architect-Sacramento Regional Office (DSA).

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 three operating units. Our review of the DGS' bank statements for the months of October, November, and December 2014 found that the OFS directly processed (deposited) approximately 88% of the \$66 million deposited over this period with the remaining 12% directly deposited by various operating units, including those noted above that were visited during our audit fieldwork.

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 Tam Huynh, Management Auditor, at 375-4714.



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Acting Chief, Office of Audit Services

cc: Jeff McGuire, Chief Deputy Director
Miles Burnett, Deputy Director, Administration Division
Brent Jamison, Deputy Director, Interagency Support Division
Chester Widom, State Architect, Division of the State Architect
Fee Chang, Chief Accounting Officer, OFS