REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

AN EVALUATION OF THE FINANCIAL REPORTING SYSTEM OF THE STATE OF CALIFORNIA

F-626

MAY 1987

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Thomas W. Hayes
Auditor General

May 6, 1987 F-626

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents a report prepared under contract by Price Waterhouse concerning the State's financial reporting system.

Respectfully submitted,

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Price Waterhouse

March 23, 1987

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

FINAL REPORT: AN EVALUATION OF CALIFORNIA'S FINANCIAL REPORTING SYSTEM

We respectfully submit the Final Report on the evaluation of the process in which the State of California prepares its annual financial report. We believe this report accurately and fairly represents the facts discovered in the course of our survey of agencies and in our interviews with control agency staff. Further, we strongly believe that our recommendations are sound and, when implemented, will result in a smoother, more efficient process and a timely Annual Report.

It has been a pleasure working with your staff. If you have any questions, please call Stephen L. Powlesland, Partner, Management Consulting Services, at 916-441-2370.

Sincerely,

Price Waterhouse

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

AN EVALUATION OF THE FINANCIAL REPORTING SYSTEM OF THE STATE OF CALIFORNIA

FINAL REPORT

Price Waterhouse

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RESULTS IN BRIEF

The preparation and compilation of annual financial data by State agencies into a comprehensive Annual Report is delayed both in process — how data is prepared and compiled, and in substance — collection of a large volume of information requiring a high degree of accuracy. In many instances, these delays would be eliminated or minimized by revising procedures and focusing the process of compiling data on those steps that are truly necessary to provide the intended benefits.

BACKGROUND

This study is the result of concerns that the Annual Report (on a legal basis) and the final audited report (on Generally Accepted Accounting Principles, or GAAP basis) are produced too far past the end of the fiscal year to be useful for developing the annual budget and for providing information needed by organizations who develop bond ratings. It had been some time since the entire process had been evaluated, especially considering the more recent implementation of CALSTARS, the concerted movement toward GAAP basis reporting and the impact of recent efforts to evaluate the utilization of professional and technical accounting personnel in State agencies.

This study was developed and conducted to accomplish the following objectives: 1) to identify the current features of the financial reporting system that contribute to inefficiencies and ineffectiveness; 2) to describe the features of a system in which financial reports would be processed to produce the report within 120 days of the end of the fiscal year; and 3) to identify the changes to establish an ideal system.

Over 75 persons in operating and control agencies were surveyed and interviewed to obtain specific information about bottlenecks in the annual financial reporting process. Sixteen state agencies, the State Controller's Office, and the Department of Finance provided the basis for the majority of information gathered in this study.

For purposes of this analysis, the financial reporting process can be divided into two major phases: "Front-end", which refers to the period during which operating agencies close their books for the year just ended and report financial activities for each of their appropriations; and the "back-end" phase, a period during which the State Controller's Office compiles all fiscal data from 300 agencies, reporting on 500 funds or accounts, into one comprehensive, combined financial statement. On page 5 is a diagram that summarizes the timelines for the current financial reporting system and also provides the timelines that should be possible under an "ideal" system in which the process has been optimized.

A draft of this report was reviewed by staff of the Department of Finance and the State Controller's Office. Their review provided additional information which assisted in clarifying the impacts of our findings and refining related recommendations.

PRINCIPAL FINDINGS

- Agencies that take longer to perform monthly reconciliations tend to submit late year-end reports.
- There are a limited number of key staff in control agencies who are both knowledgeable about the year-end process and available for assisting agencies.

- There is an expressed need among accounting personnel for more training, in the areas of: roles and responsibilities of control agencies, CALSTARS features and functions, reconciliations, and the interrelationship of accounting to other staff service functions.
- The absence of policies on materiality (that is, relative dollar value) and an acceptable level of accuracy in fiscal data from agencies places a significant burden upon the State Controller's Office in terms of the amount of verification of financial reports that is required.
- Verification and compilation by the State Controller's Office of fiscal data from agencies, and preparation of the Annual Report is performed without the benefit of a detailed project management plan and schedule.
- Computer technology is not yet utilized effectively in the preparation of the Annual Report; however, there is an approved plan to achieve more effective computer use by fiscal year 1988-89.
- The Legislature has not established firm deadlines for either the legal basis or GAAP basis reports which makes it difficult to establish accountability for preparing the Annual Report on a timely basis.

RECOMMENDATIONS

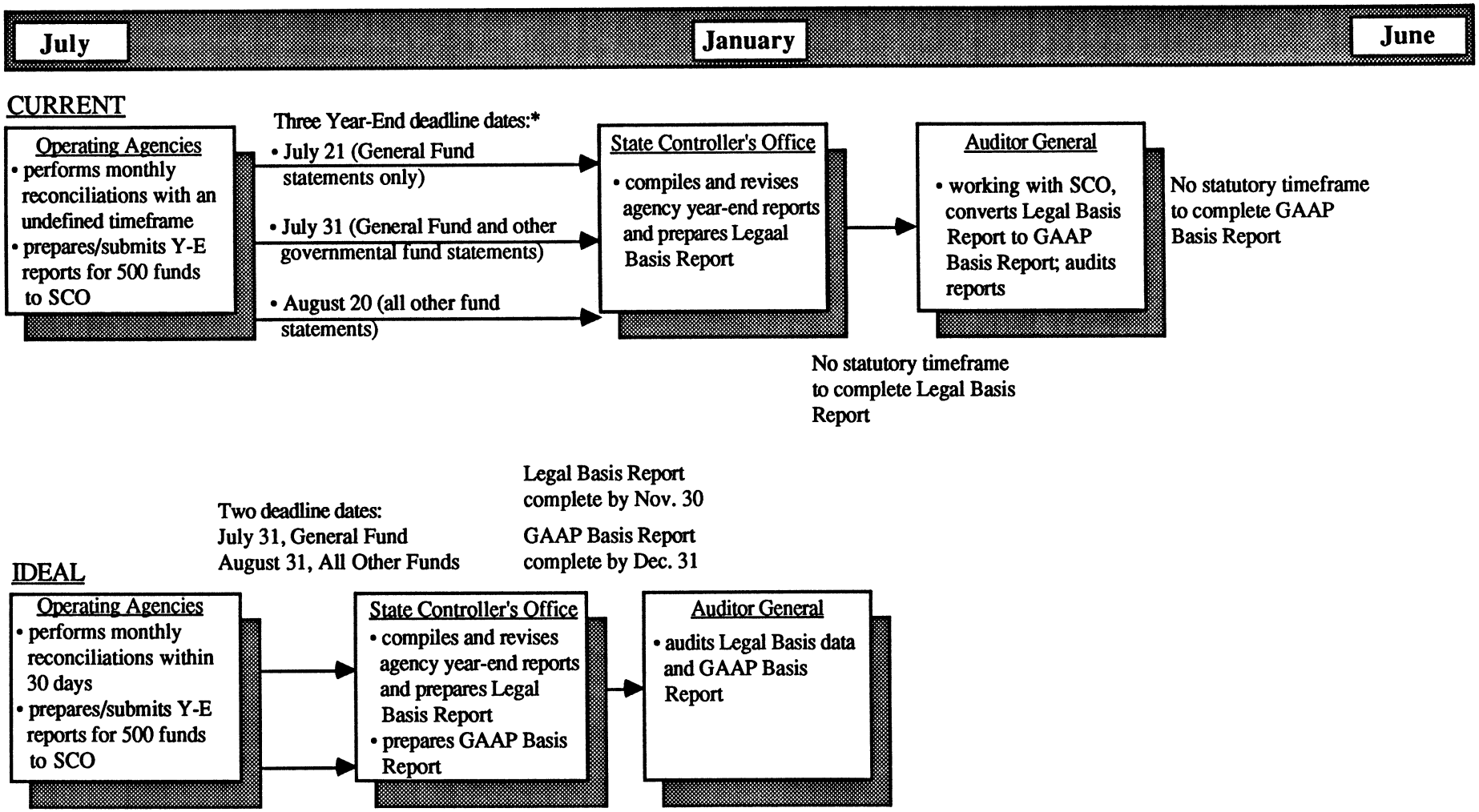
- Revise the State Administrative Manual to: (1) require monthly reconciliations within 30 days of the end of the month; (2) reflect accurately the roles and responsibilities of control agencies; and (3) reduce the number of copies of each report submitted to control agencies.
- Evaluate the utility of each of the 15 or so reports required in the year-end

financial statements for the purpose of reducing data redundancy among them.

- Develop a training course which describes and explains in detail the overall roles of fiscal control agencies, with specific information about each unit involved in the financial reporting process.
- Expand existing CALSTARS training courses to provide more detailed information about the features of CALSTARS which currently may not be fully utilized by agencies.
- In the State Controller's Office, improve the process for producing the Annual Report by: (1) expanding upon the current target date schedule and work flow diagram, based upon a proven project management methodology; (2) taking full advantage of available computer technology (specifically personal computers); (3) evaluating and, where appropriate, re-allocating staff resources within the Financial Reports and Apportionments Unit to maximize available skills.
- Establish firm deadlines for the legal basis report (i.e., November 30) and the GAAP basis report (i.e., December 31).
- Require agencies to submit their General Fund year-end statements by July 31, and all other fund statements by August 31.

OFFICE OF THE AUDITOR GENERAL

SUMMARY OF THE CURRENT AND IDEAL FINANCIAL REPORTING TIMELINES



* Under the current environment, some agencies have submitted year-end statements six months or more past the end of the fiscal year.

A. ORIGIN OF PROJECT

This project is an outgrowth of concerns about the recurring delays in California's production of its Annual Report. Since the move toward GAAP basis reporting over five years ago, all but one report was completed more than seven months after the end of the fiscal year. In addition to the GAAP basis reporting format, the rating agencies also would prefer states presenting GAAP basis reports within six months of the end of the fiscal year. There is the potential that late production of the Annual Report delays the evaluation of California's financial condition for purposes of determining bond ratings. Finally, the Governor's Department of Finance relies on year-end reporting to prepare the Governor's budget for the budget year. The budget realistically must be completed by the end of December for submission to the Legislature on January 10.

Due to California's complex financial reporting system, determining the causes of delay is not easy. Multiple funds and budget accounts are required for compliance with legislative authorization. The annual Budget Act, which lists appropriations for agency programs, requires extensive accountability by line departments in their operations. The administrative requirements specified in the State Administrative Manual and in directions from the State Controller's Office also contribute to the complexity of our state's financial system. Each agency or department is accountable for all expenditures and funds by line item, and for the reconciliation of agency accounts to centralized control accounts. The complexity of California's system is reflected in the units to which it reports its data: there are more than 78,000 control accounts in addition to the 500 statutory funds and accounts in more than 300 departments. Clearly this volume makes the generation of timely and accurate data and thorough financial reporting a formidable task.

Although the CALSTARS accounting system was introduced in 1981 to address many of these obstacles, there still remains a significant number of problems with the reporting system, including downtime, cumbersome processing, and the lack of a statewide computer system for all agencies, including the State Controller's Office. In addition, other factors which contribute to the problem of late financial reporting include the rapid growth of California's budget over the last 15 years; problems some agencies have experienced in transitioning to the sophisticated CALSTARS environment; increases in technical and workload demands for accounting professionals and technicians with only a limited expansion of the educational requirements of the accounting class series; policy changes regarding the size of the State government workforce, increasing pressure for the State of California to implement GAAP basis reporting, and the absence of incentives for agencies to submit timely reports.

B. PROJECT SCOPE AND OBJECTIVES

This project involved a statewide review of the financial reporting system, procedures, and outcomes with respect to currently identified problems in California's financial reporting system. Emphasis was placed on specific problems that were identified during our review as being particularly relevant to the pattern of delay. The volume of elements influencing the existing process precluded the identification and study of all the factors that could be creating extra delay; however, the information collected was used to delineate opportunities for policy and procedural recommendations to correct significant existing problems.

The specific objectives of this project were:

- To identify current features of the financial reporting system that contribute to inefficiencies and ineffectiveness;
- To describe the features of a system that could produce the report within 120 days of the end of the fiscal year; and
- To identify the necessary changes to establish such a system.

C. PROJECT METHODOLOGY

The project began with preliminary discussions with knowledgeable state officials on the nature of the problems associated with late financial reports. The purpose of these early discussions was two-fold: 1) to describe to these officials the objectives of the project and their expected participation in implementing any resulting recommendations, and 2) to obtain their perspectives on issues associated with the accounting function in general, and the financial reporting process in particular.

A survey of 16 state agencies was conducted to gather first-hand information from staff directly involved in preparing financial reports. Follow-up interviews were held with each respondent (of which there were 65) to clarify responses and to provide an opportunity for people to express their personal opinions about the process. The data from these activities was captured in a data base to develop statistical comparisons of key factors related to the timely or untimely submission of financial reports.

Concurrent with the above effort, an analysis of activities that occur after agencies have submitted their reports to control agencies was initiated, beginning with interviews of key staff within the Financial Reports and Apportionments Unit and the Systems Management Unit of the State Controller's Office. Then, approximately 35 fund files

maintained by the State Controller were reviewed to obtain a sampling of the type of problems they have to resolve before the data from agencies can be made final for the legal basis report.

Twice during the course of the project, a Technical Steering Committee was convened to monitor the direction and areas of analysis, to explore issues, and to evaluate preliminary recommendations for improving the system. The Steering Committee was composed of Price Waterhouse experts in the fields of accounting, accounting systems, and financial reporting.

D. ABOUT THE SAMPLE

Our sample of 16 state agencies was compiled according to the following qualifications stipulated by the Office of the Auditor General: six large agencies, three of which utilized CALSTARS; three medium agencies using CALSTARS and three medium agencies not on CALSTARS; two small agencies on CALSTARS and two not on CALSTARS; and inclusion of some agencies that submitted late year-end reports for fiscal year 1984-85. The following is a list of the agencies in our sample:

Large Agencies on CALSTARS:

Department of Corrections
Department of Developmental Services
Department of Social Services

Large Agencies not on CALSTARS:

Department of Health Services (automated)
Employment Development Department (automated)
Board of Equalization (manual)

Medium-Sized Agencies on CALSTARS:

Department of Alcohol and Drugs
Department of Forestry
Department of Housing and Community Development

Medium-Sized Agencies not on CALSTARS:

Department of Motor Vehicles (automated)
Department of Food and Agriculture (automated)
Franchise Tax Board (manual)

Small Agencies on CALSTARS:	Small Agencies not on CALSTARS:
Department of Commerce	California Post-Secondary Education (manual)
State Water Resources Control Board	Secretary of State (manual)

Although this sample is not statistically representative of the population, it is a reasonable representation of state agencies when considering total staffing and staff expenditures. For example, the large agencies included in our sample represent 21.47% of total personnel years and 37.88% of total state expenditures for the 1985-86 fiscal year (Source: 1985-86 California State Budget).

E. GENERAL SURVEY RESULTS

Our analysis of reporting timeliness took several factors into consideration. For each agency surveyed, we examined the size of the agency, the accounting system utilized, and the number of funds handled by each. These departmental aspects were each examined to determine their influence on reporting timeliness. The relationships, or lack thereof, are noted below.

Is there a relationship between the size of the agency and the late submission of year-end reports?

Our findings indicate no correlation between the size of the agency and reporting timeliness. For the 1985-86 year, one large agency, one medium agency, and one small agency from our sample had late submissions. In 1984-85, three (50%) of the large agencies, two (33.3%) of the medium agencies, and one (25%) of the small agencies from the sample had late submissions.

Is there a relationship between the number of funds handled by each agency and whether or not year-end reports are submitted on time?

Our findings indicate no significant correlation between the number of funds handled by each agency and reporting timeliness. Of the sixteen agencies sample, eleven agencies (68.75%) had less than five funds. Of those agencies, four (36.36%) were late in 1984-85, while two of these (18.18%) were not submitted on time for 1985-86. The remaining 5 agencies (31.25%) had between 5 and 34 funds. Two of the agencies were not on time for 1984-85, but only one of these (20%) was late for the 1985-86 year-end deadlines.

Both groups experienced a reduction in the proportion that were late in 1985-86, from the experience in 1984-85. In and of itself, this does not support a significant relationship between the number of funds handled and the propensity for late submissions.

Is there a relationship between the type of accounting system utilized by the agency and the timeliness of year-end reporting?

Our findings indicate that there is a correlation between the type of accounting system used by the agency and the timeliness of their year-end statement submissions. Of our sample, four agencies (25%) used an automated accounting system other than CALSTARS, four (25%) used a manual system, and the remaining eight utilized (50%) CALSTARS.

None of the agencies in the sample using either an automated or manual system submitted late reports for either the 1984-85 or 1985-86 years. Of the CALSTARS users in the sample, however, six agencies (75%) submitted late reports for 1984-85 and three of these agencies (37.5%) were late in 1985-86 .

While these results indicate a relationship between the use of CALSTARS and late reporting, it is not possible to determine from this evidence alone what is the specific nature of that relationship or whether that relationship is causal in any way.

F. OBSERVATIONS OF THE ACCURACY OF YEAR-END STATEMENTS

In addition to the survey, we also conducted a review of the condition in which data is submitted to the State Controller's Office through a random selection of fund statement files. The review was intended to explore the questions: Do agencies submit reports to the SCO that are ready for compilation into the Annual Report? Does the SCO have to manipulate data significantly in order to prepare the Annual Report?

The SCO staff indicated that their task would be much improved if reports submitted to them were accurate; we were told, in fact, that very few of the reports they receive are completely accurate. The spectrum of inaccuracies, according to SCO staff, run from incorrect account codes to transposed numbers to gross errors in accounting logic. The SCO has told us that considerable effort is given to ensuring the accurate entry of data into the SCO's computer system. In addition, SCO verifies that all reports within the set consistently represent the data that is used by the SCO for its report. These checks and any subsequent corrections or revisions are noted on a form (FAM 28) within each fund file. Our file review focused on the information in these forms.

Forty-four files were reviewed. These files were largely pulled from file drawers

(completed statements) and working file bins (unfinished statements) in the Financial Reports and Apportionments Unit (FRA). In addition, one file was pulled for each of the 16 agencies surveyed. Finally, staff of the FRA identified specific files which were regarded as containing substantial inaccuracies.

Of the files we received, seven (16%) had no error/adjustment form (FAM 28). With regard to the remaining 37 files (which have multiple reports in them), we found a total of 140 adjustments or corrections had been made by the FRA. Eleven of the 37 files (30%) noted 61 telephone calls made to agencies to verify data. In the group of adjustments, 6% represented cases where the agency posted data to the wrong appropriation or to an appropriation for which the necessary budget revision had not been processed by June 30; 6% posted data to a reverted appropriation or account; 26% were mathematical errors; and 15% were cases of incomplete or missing reports. The remaining 47% were various "miscellaneous" adjustments. Included in this latter group were 24 instances where an agency had not made an adjustment that it should have made; 29 instances involving accruals being done improperly; and 5 instances of negative encumbrances requiring adjustments.

The pattern indicated by this file review suggests that the SCO is rigorous in pursuing every "error" or "inaccuracy" found in the reports submitted by agencies while, for the most part, SCO staff are not required (nor would there likely be staff resources available) to completely re-do the reports in order to correct them. This review indicates that some portion of the delay in preparation of the Annual Report can, in fact, be attributed to inaccuracies in the reports.

It is difficult, however, to measure this impact. A strategy for reducing this delay could take two forms: 1) attempt to achieve a very low level, or even elimination of inaccuracies on reports received from agencies — a desirable but probably unfeasible goal

due to costs which would be borne by agencies; 2) attempt to reduce the level of inaccuracy to the extent practical, accept some amount of "inaccuracy" as immaterial to the overall quality of the Annual Report, and develop procedures which optimize processing time despite the existence of errors and inaccuracies.

This latter strategy would involve, at a minimum, the following actions:

1. By January 31, provide feedback to the majority of agencies on specific inaccuracies found in the reports submitted for the previous year-end. Since the SCO itemizes their adjustments on the error/adjustment form (FAM 28) in each file, a copy of the form and an explanatory form cover letter to the agency's director would provide useful feedback to the agency. According to the FRA unit chief, this approach of notifying the agency director of the importance of the SCO's request had been successful for the FRA in a similar situation previously.

2. Summarize the types of errors which the FRA identified and resolved. From the FAM 28 forms, the types of errors identified and resolved should be evaluated for incorporating relevant instruction materials in the following year's training workshops conducted by the Department of Finance with the SCO participating. In this way, additional feedback will be provided to agency personnel for avoiding common or serious errors being committed in the next year-end closing process.

In addition to these points, specific recommendations in Chapters II and III describe approaches to development of the Annual Report which should result in accelerating its completion.

A. OVERVIEW

In evaluating the financial reporting process, it was determined that clear distinctions exist between functions done in the earlier, or "front-end" phase of producing the State's Annual Report from those done in the "back-end." This division of functions provided a meaningful framework within which to examine conditions creating processing delays.

"Front-end processing" is that phase in the year-end reporting process which occurs prior to the submission of financial statements to the State Controller's Office, the Department of Finance, and other control agencies. This phase encompasses activities performed primarily by agencies and departments, although control agencies also do preliminary work during this phase. Generally speaking, the major activities during this phase include agencies closing out their books and summarizing their financial activity for the prior fiscal year. In addition to verifying the proper recording of expenditures and revenues to appropriations and funds, agencies must estimate (and categorize) their accruals and encumbrances, part of which is a unique year-end activity.

The majority of information gathered in this project about the front-end process results from the survey of 16 agencies (approximately 70 respondents) and follow-up interviews which we conducted. There were comparisons made between available documentation of the information flow in this phase and the perceptions (vis á vis, how things actually are done) of those involved in the system: namely, accounting staff in State agencies. Our analysis resulted in findings we categorized in three areas: performance capabilities, information processing, and overall process. No one of the areas individually can be viewed as the main contribution to delays in the reporting process. Rather, we found significant interrelationships among many findings, causes, and effects. Naturally, many of the recommendations we are making may have an impact on each other. Where this is the

case, we have noted it. (Note: Exhibits in this section have been reproduced from Appendix G.)

B. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO *PERFORMANCE CAPABILITIES*

> *Many of the problems that cause delays in agencies submitting year-end reports on a timely basis appear to be symptoms of how the accounting function in State government is staffed and managed. We found that the ability of State accounting staff to perform year-end processing functions in a timely manner is greatly dependent upon accurate and complete direction from control agencies and the timeliness of automated accounting systems producing needed reports.*

The nature of the work involved in producing an agency's year-end statements is different from the majority of the more regular, daily work performed by a typical accounting office. What accounting offices do on a daily basis is prepare documents for payments, record revenues and expenditures, reconcile cash accounts with the State Treasurer and State Controller, reconcile appropriation levels with the State Controller, provide advances, process travel claims, and so forth. In addition, accounting offices provide fiscal information to their agency's management and other administrative units, such as the budget office, for purposes such as planning and decision-making.

The task that accounting offices must do during year-end closing generally is to prepare data from the numerous records it has used throughout the year and report that data to — and in a format prescribed by — control agencies. In theory, year-end reporting tasks would be similar to their other ongoing work. It appears, however, that this is <u>not</u> the experience of accounting staff. Of the accounting supervisors and staff surveyed, 67 percent (two-thirds) indicated that the year-end process was at least somewhat different from ongoing work during the year. More than a third of these characterized the process as being substantially different. We conclude there is sufficient data to indicate that year-end work is

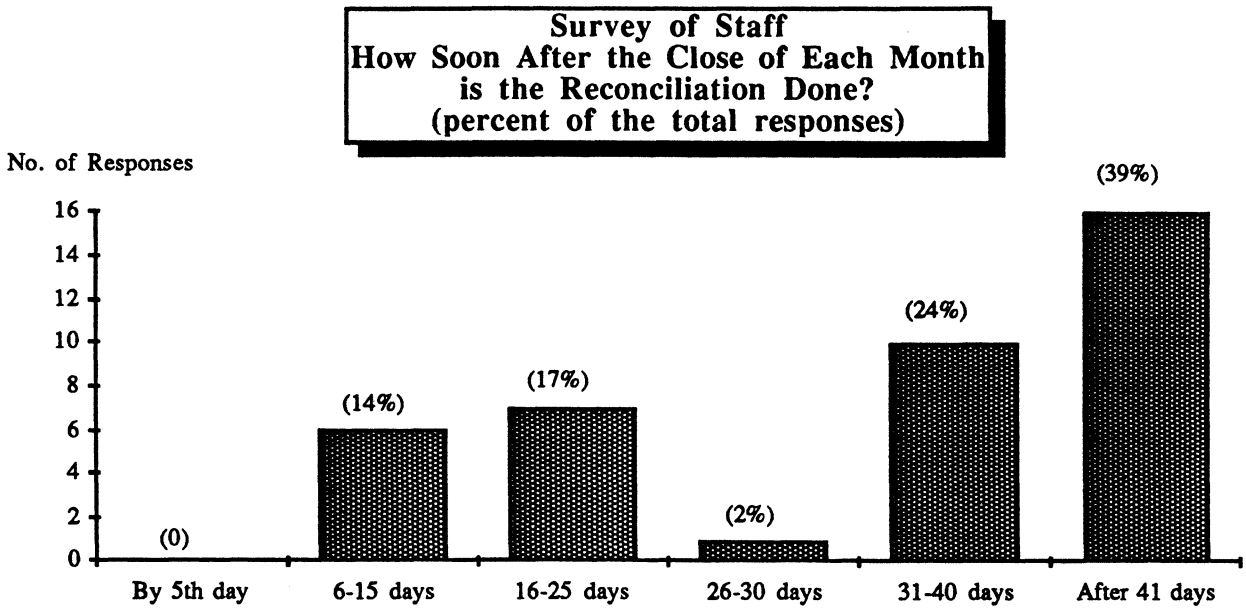
different enough from the regular, more routine accounting work that this may have a bearing on the timeliness in which year-end reports are prepared. We found no data to suggest that State accounting staff innately lack the ability to prepare timely year-end reports; however, we did find that lack of access to technical assistance and to definitive guidance in the preparation of reports could be contributing factors to delays in report preparation.

Agencies that perform later monthly reconciliations are more prone to submit late and inaccurate year-end reports. Agencies with field offices that do not receive timesheet data in a timely manner are delayed further in completing monthly reconciliations.

Causes

The sample of the 16 agencies surveyed showed that, of the three agencies that submitted late year-end reports in 1985-86, all of them reconciled on a monthly basis an average of at least 31 days after the end of the previous month. Exhibit I on the next page illustrates for agencies in the survey when, on the average, monthly reconciliations were performed. As can be seen from the graph, 65 percent of those responding indicated they reconciled more than 30 days past the end of the previous month. In a related area, interviews with staff of one agency with field office operations indicated that submission of timesheets to headquarters often does not occur until the 15th to the 20th day of the month. Apparently, the reason for the delay is simply the mailing of timesheets to Sacramento. Before the reconciliation process can begin, the labor distribution function must be performed first. Headquarters staff indicated this is normally when timesheet data arrives. Headquarters staff of this agency also indicated that the labor distribution function is a cumbersome process.

EXHIBIT I



In comparing the number of average days to reconcile with how soon year-end reports were submitted for those agencies surveyed, the consolidated data in Exhibit II on the following page suggests a rough pattern: the later past the end of the month an agency reconciled, the later it was more likely to submit year-end reports.

What would tend to support this finding is that the three agencies late in submitting their 1985-86 reports also reconciled more than 30 days beyond the end of the previous month. Furthermore, as can be seen from Exhibit III also on the following page, the combined responses of staff and managers surveyed indicated that difficulty in reconciling was the second most common reason (along with gathering timely data) that may contribute to late year-end reports.

EXHIBIT II

Ratio of Late Y-E Reports to Days to Reconcile per Month

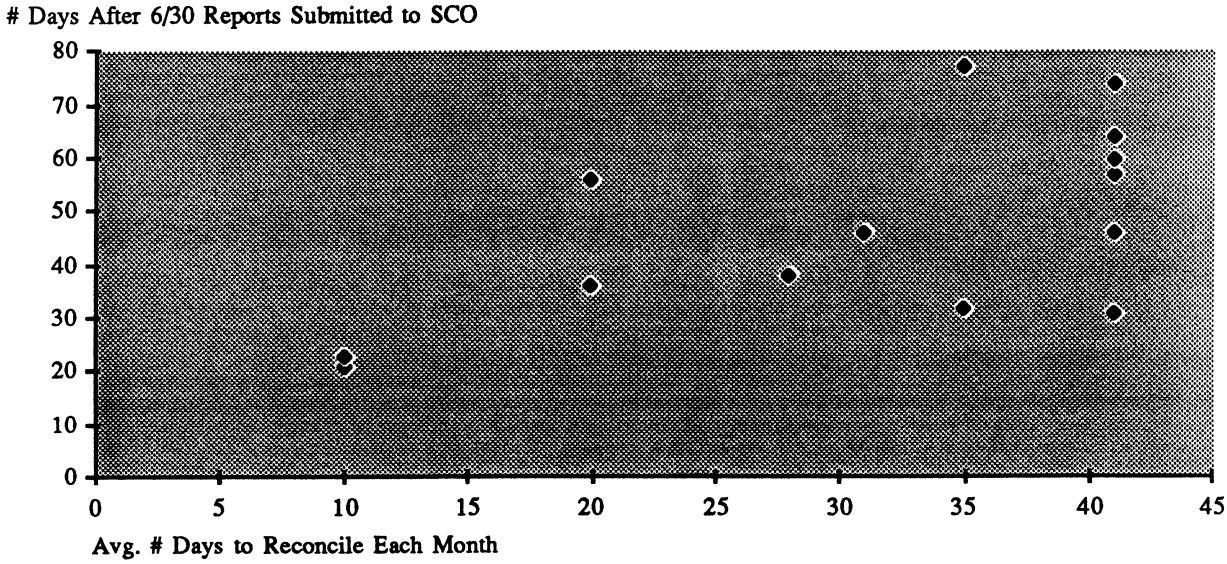
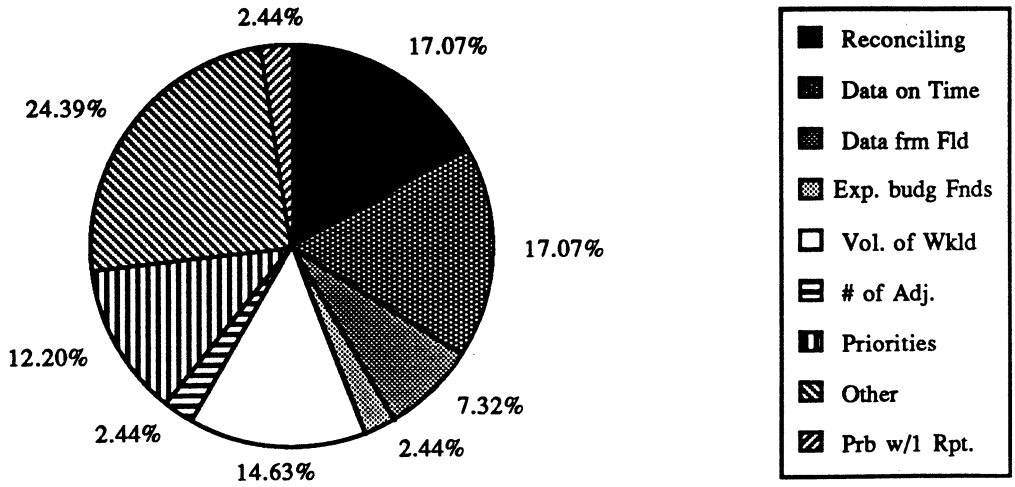


EXHIBIT III

**Survey of Staff and Managers
What Is The Primary Reason for Late Y-E Reports?**



On the other hand, managers surveyed stated that other accounting office priorities are the primary reason for the lack of more timely reconciliations. In follow-up interviews and in the survey, managers also stated that, in terms of overall accounting priorities, fund accounting and accounts payable take priority over reconciliations. Notwithstanding this, managers recognize the importance of reconciliations; as will be noted below, managers surveyed indicated that one of the most important areas for enhanced training is reconciliations (see page II-14).

Effects

The potential impacts of less timely reconciliations include a year-end rush to reconcile and make adjusting entries, submission of late year-end reports, and possibly reduced quality control of information to the State Controller's Office. The year-end rush is an untimely peak workload considering the myriad of tasks agency accounting offices must perform at year-end. This workload could be smoothed out somewhat if reconciliations and adjustments were done on a more timely basis. Not having a clearly defined time in which reconciliations should be performed, however, somewhat diminishes management control over the performance of certain activities.

The CALSTARS Month End/Reconciliation course advises, on page 8 of the "Month End Close Checklist" section, that agencies reconcile 15 to 30 days from the preceding month. In addition, managers in the survey and in follow-up interviews recognized that more timely reconciliations facilitate the year-end report preparation process. With regard to agencies where the headquarters office cannot complete its monthly transactions until timesheet data is received from the field, then, in addition to the monthly delays in completing reconciliations, more critical delays would likely occur at year-end.

Recommendations

1. Require agencies to reconcile monthly within 30 days of the preceding month, and revise Section 7900 of the State Administrative Manual (SAM) to reflect this requirement. This recommendation is based on what is a suggested practice of CALSTARS agencies.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit

Estimated Costs: Absorbable staff costs for the Department of Finance; potential savings for agencies to the extent year-end overtime is reduced by keeping current.

Current CALSTARS course offerings are primarily targeted to agencies coming on-line to CALSTARS. Consequently, ongoing training of staff of existing CALSTARS agencies is not given as much priority. In addition, CALSTARS training concentrates on the technical and mechanical aspects of system coding, not on the process or impact of accounting transactions.

Causes

The CALSTARS unit within the Department of Finance currently offers three general types of training; 1) implementation training for new agencies, 2) month end/reconciliation training primarily for new agencies and secondarily (where space permits) for new staff of existing CALSTARS agencies, and 3) year-end closing training for all agency staff.

Current staff resources and the unit's historical mission have made the unit gear their training more towards implementation of the system, since the unit's main role has been to bring agencies on-line to CALSTARS. A recent CALSTARS unit reorganization has recognized the importance of training as a whole, and consequently, a training unit of 3.5 personnel years has been separately created within this unit. The Department of Finance indicated it has moved toward expanding the CALSTARS training curricula to agencies already on CALSTARS

The emphasis in the course content of current CALSTARS offerings is on the technical aspects of the system's coding, structure, and table design. Given that it is a complicated system, it is understandable that the mechancial aspects of the process would be highlighted over the process of accounting. Interviews with agency managers using automated systems, however, indicated they believe their accounting staff have lost the feel of the accounting process and the results of a transaction. It should also be noted that about one-third of the respondents stated their agency does not maintain written accounting procedures, and slightly over half of the respondents that do have written procedures stated they very seldom use them.

Effects

The effect of the current CALSTARS course offerings has been that staff of ongoing agencies may not be receiving adequate follow-up training and further, the emphasis has been more on inputting transaction codes into proper data cells, with less emphasis on an overall understanding of the accounting event itself. Not having agency written procedures or inadequate written procedures may also adversely affect accounting processing. The result of this would be that staff of ongoing agencies believe they may not be as fully knowledgable about the system, and managers believe staff may be slowly losing the understanding of basic accounting, thereby increasing the possibility of bad or inaccurate data being fed into the system. This would potentially require adjustments to the data, and could delay the preparation and submission of year-end reports.

Recommendations

1. Open the current CALSTARS Month End/Reconciliation course offering to include staff of all CALSTARS agencies, new and ongoing. If necessary to keep class size manageable, offer these courses more often during the year to meet increased demand. In addition, agency accounting managers should maintain thorough and updated office procedures, and establish internal procedures to train new staff utilizing these procedures.

Responsible Party: Department of Finance, CALSTARS Unit, and accounting office managers.

Estimated Costs: Substantial cost for each additional time the CALSTARS course is offered; for accounting managers, training updates should be an existing activity.

2. Require staff using CALSTARS or other automated systems to maintain basic accounting proficiency levels by regular attendance at course offerings on accounting. This action would be consistent with the CALSTARS' Unit planned incorporation of a similar provision in an agency's Memorandum of Understanding. To the extent possible, have current CALSTARS courses further broadened to present specific examples of how coding a transaction flows through the accounting process (i.e., the accounting event).

Responsible Party: Department of Finance, CALSTARS Unit, and accounting office managers.

Estimated Costs: Additional training costs and diverted agency staff time to attend additional courses.

There is a limited number of key staff in fiscal agencies who are fully knowledgeable about the year-end process and who are available to readily respond to agency questions.

Causes

The staff of the State Controller's Office (SCO), Division of Accounting, Financial Reports and Apportionments (FRA) Unit is responsible for preparing the Annual Report. That unit has undergone significant growth over the last two fiscal years. The unit is currently authorized a total of 26 positions, an increase of eight positions over the 1984-85 fiscal year. Some positions which had been vacant for some time were in the process of being filled as this project was initiated. Prior to this year, the unit assigned 10 to 15 staff to prepare the report, complemented with seasonal or student assistant staff on a temporary basis.

Given that there are about 300 agencies or departments using about 500 funds, and that, up until this year, only 15 permanent state employees to assist agencies, the effective ratio would be 1 SCO person for every 33 funds. It should be noted, however, that for every fund, there may be as many as 12 reports compounded by the number of agencies with activities in that fund (e.g., General Fund). Thus, in terms of the sets of reports handled by each person, the effective ratio increases to 1 to 91. Moreover, only a handful of FRA staff have any meaningful year-end reporting experience; thus, there simply have not been enough people in the SCO to personally assist agencies needing help during year-end. There are too few experienced staff in the unit to handle the number of questions that arise during year-end. The Department of Finance's Fiscal Systems and Consulting Unit (FSCU) plays a role in answering agencies' questions during the year-end process. It, too, has few experienced staff available to answer year-end questions. In addition, the staff in the CALSTARS unit have been assisting some CALSTARS agencies in year-end activities.

Effects

Delays in the process occur because of an agency's "search" for technical assistance which ultimately may take the form of following the advice of colleagues in other agencies. Submission of the agency's report is delayed (i.e., waiting for telephone calls to be returned from the person who would have the right answer) and the SCO's process is delayed if they have to spend time correcting an incorrect entry.

Agencies cannot rely upon control agencies for technical assistance because, quite often, some control agency staff are not available when needed to respond quickly and accurately to questions. Our interviews with agency staff indicated that, to them, it appears there are not enough control agency staff (with experience) to support all agencies that need assistance. In the long-term, agency staff seem inclined to rely less upon control agency assistance.

Recommendations

1. In the short term, the SCO should designate hours of the day during year-end in which agencies will be assured that their telephone calls will be handled by appropriate staff. Designated staff, including names and types of questions they can answer, should be made known to agencies. SCO management should commit to allowing all staff who could answer questions to be dedicated to this function during the specified hours. The objective of this recommendation is to handle agency problems more efficiently – with one telephone call, instead of several.

Responsible Party: State Controller's Office, Division of Accounting.

Estimated Costs: The cost of "extending" office hours should be compensated by the savings associated with fewer interruptions (i.e., more productivity).

2. Those control agency staff directly involved in the preparation of the year-end report should have significant and direct involvement in the year-end/reconciliation training sessions provided to operating agencies.

Responsible Party: State Controller's Office, Division of Accounting.

Estimated Costs: Unknown.

3. In the long term, less reliance upon control agencies for technical assistance should become a goal of the fiscal units in the Department of Finance and the State Controller's Office. Their roles in this area should be revised to minimize personal, hands-on technical assistance and to maximize expansion of technical knowledge to agency staff. Their efforts should concentrate more on assisting in the development and training of agency accounting managers who would "replace" control agencies in this technical advisory role. Centralized fiscal policy that bears a statewide impact should remain with a control agency, as related to their departmental mission. (See below for recommendations related to fiscal policy setting roles.)

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: Minimal since this recommendation focuses on a redirection of existing resources.

Agency staff surveyed indicated the need for more frequent and expanded training in the areas of reconciliations and technical (governmental) accounting. Staff responses also indicated that there is lack of full understanding on how accounting and the State's budget process are related, and the roles and responsibilities of the States' fiscal agencies.

Causes

The quality of the current training seems to be satisfactory since, as Exhibit IV on the following page shows, 84% of staff surveyed rated all current State course offerings as excellent or satisfactory. Even though staff rate current courses fairly highly, it appears from

survey responses that there is a need for additional or more specific training in certain key areas. Eighty-eight percent of staff responded that there is a need for more training. This may also suggest that current courses are not offered as often as may be needed. Interestingly, even though more and expanded training is desired, 65% of the managers indicated their own department does not have an internal training program. This would suggest that agency managers perceive that, when internal resources are insufficient, training is more appropriately the responsibility of other agencies.

EXHIBIT IV

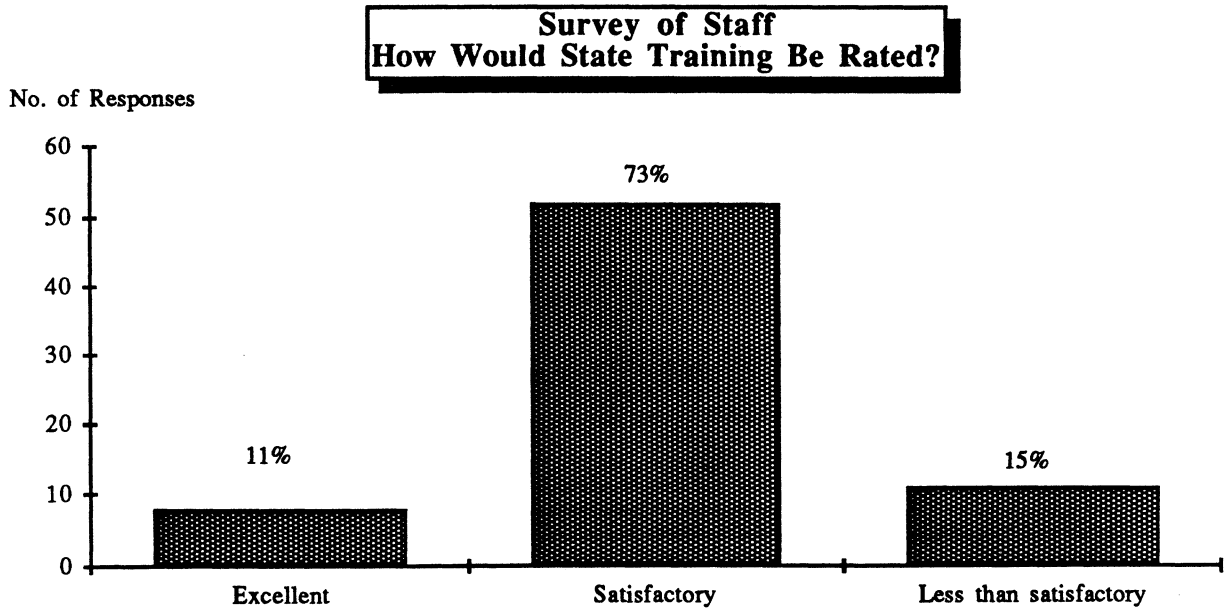
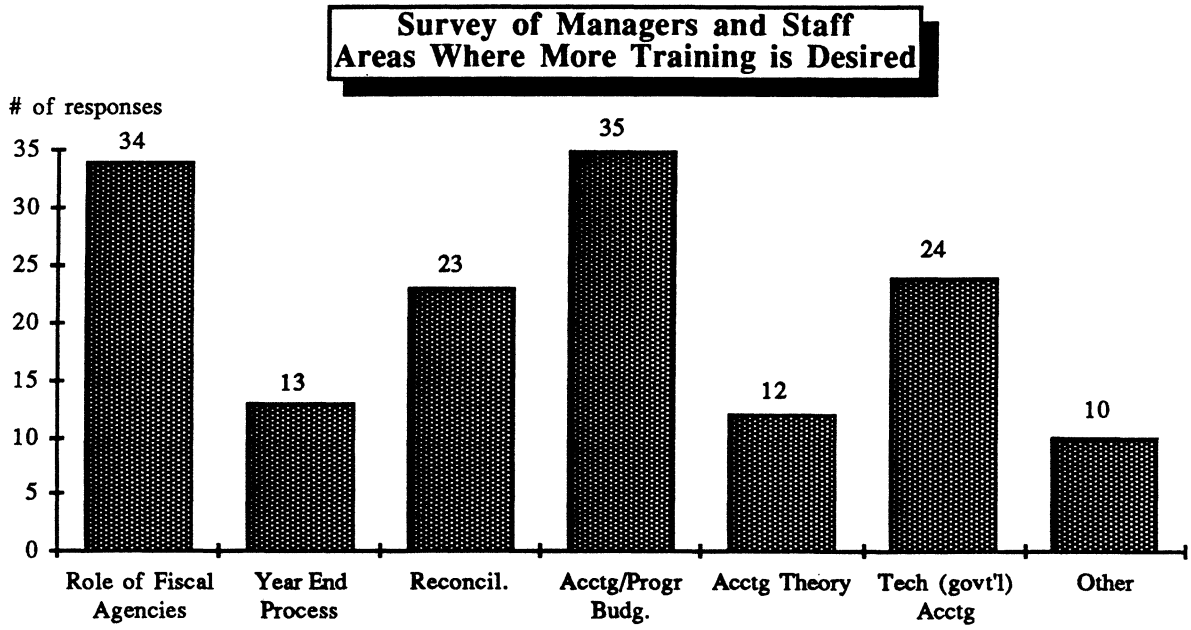


Exhibit V, on the following page, graphically depicts combined responses of managers and staff with respect to where enhanced training is desired.

EXHIBIT V



Currently, the Department of Personnel Administration (DPA) and the Department of Finance's Fiscal Systems and Consulting Unit (FSCU) and CALSTARS Unit each conduct similar but separate year-end/reconciliation training courses. Recognizing the need for the CALSTARS training course on its own, we nonetheless found little coordination between DPA and FSCU on course content or development. This would suggest that resources are not being used effectively, and may lead to duplication of effort. In both courses, the reconciliation component was not given as prominent a discussion as the survey respondents believe is required.

As noted above, technical governmental accounting was one major area mentioned by respondents as a training area in which there is considerable interest. What may partially account for this is that there is currently no requirement for accounting staff to complete

governmental accounting curriculum in order to qualify for the State's accounting classification series. We found governmental accounting is discussed in Module III of the recently created DOF State Fund Accounting course. A Department of Personnel Administration course on the State Accounting Process course discusses various detailed "nuts and bolts" aspects of governmental accounting, but little in the area of the framework of governmental accounting and how it differs from other types of accounting.

With regard to the relationship between accounting and the State budget process, the new DOF course in module XI (Budgetary Accounting) discusses how accounting relates to the State's budget process. Other current State course offerings do not present such a discussion. Similarly, it is apparent from the survey responses that there is some confusion regarding the specific roles and responsibilities between the various fiscal agencies. The DOF State Fund Accounting course includes some discussion of this, but it does not appear that this issue is discussed in other existing State accounting courses. The DOF course, however, is currently limited to professional accounting classifications only. Those below the Accountant Trainee level are not able to attend this course.

Effects

Delays in reconciliations and the year-end process are potentially exacerbated because of specific gaps in the training which agency accounting staff receive. This could also adversely affect the overall operation of the accounting office. The need for enhanced reconciliation training suggests, for example, that respondents are not fully comfortable with their understanding of the reconciliation process.

Similarly, the need for enhanced training in the other areas mentioned are important to address, to the extent that lack of staff knowledge inhibits an agency's ability to submit year-end reports in a timely manner. This would especially hold true if agency staff are not

fully trained in the basic aspects of governmental accounting, even though they may have academic or direct experience in private enterprise accounting.

Recommendations

1. Open the Department of Finance course on State Fund Accounting to all accounting classifications to allow accounting office managers to enroll those staff they think will benefit from the course. Also, offer the course more often. Expand and highlight the current discussion on the roles and responsibilities of the State fiscal agencies (Module II, Section F, page 46) and present it as a separate module.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: Added costs to the extent additional courses are offered.

2. Expand the current modules in the State Fund Accounting course that describe how accounting relates to the budget process (Module XI), and that discuss governmental accounting (Module III). Obtain additional feedback from participants on the contents of the course, and utilize that feedback to refine the course as needed.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: Unknown, but could be significant.

3. Consolidate the year-end/reconciliation courses offered by Department of Personnel Administration and Department of Finance. The responsibility for developing and conducting this course should reside within the Fiscal Systems and Consulting Unit, since it is generally recognized as the lead fiscal policy agency; however, staff of the Financial Reports and Apportionments Unit should be actively involved in developing the components on financial reporting.

Responsible Party: Department of Personnel Administration and Department of Finance.

Estimated Costs: Consolidation should result in substantial cost savings.

4. Expand the discussion of the reconciliation component currently presented in the Year-End/Reconciliation course. Specific additional enhancements should include:

- Reconciliation problems which require correcting previous entries (whether manual or automated);
- Examples of preparing adjusting documents for State Controller records in addition to adjusting agency records;
- Coordination of reconciling fund balances with another agency; and
- Presenting actual agency examples of reconciliation problems or errors they have encountered.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: Minimal costs since this is an expansion of existing curriculum.

5. Improve the written presentation of the DPA State Accounting Process course. Summarize the contents of the DPA State Accounting Process course in an Introduction or Overview Section, which outlines course approach and objectives. Develop an organized and thorough Table of Contents for the course. Also highlight the Glossary of Terms in the Table of Contents, and add as an appendix.

Responsible Party: Department of Personnel Administration.

Estimated Costs : Absorbable costs.

Staff of state agencies are unclear on the specific roles and responsibilities of the fiscal agencies involved in the process.

Causes

The roles and responsibilities of each of the fiscal control agencies apparently are not adequately communicated to accounting staff and staff of state agencies in general.

Information on these roles is touched upon briefly in some training courses and scattered throughout documents frequently referred to by accounting staff. These documents include the Governor's Budget, the State Administrative Manual (see Appendix J for pertinent sections), management memos from the Department of Finance, directive letters from the State Controller's Office, and general statements included in the Government Code. The following are excerpts from these documents:

- The Governor's Budget (1986-87) indicates that one function of the Fiscal Systems and Reporting Unit is that it "develops and communicates statewide fiscal and accounting policies and procedures to state agencies through Management Memos and the accounting portion of the State Administrative Manual."
- The Budget also indicates that, through the Fiscal Control Program Element, the State Controller's Division of Accounting, among other things, is to "report promptly and accurately the State's financial condition and operations to assure fiscal integrity of State government."
- Section 7360, Organization for Fiscal Management in the State Administrative Manual, is silent on the roles of the State Controller's Office and the Department of Finance in managing California's fiscal resources.

Thirty percent of the responses from accounting managers and 64 percent of the responses from accounting supervisors and staff indicated the need for additional courses in this area. Our review of source documents and the results of the survey suggest there may be confusion about roles and responsibilities of control agencies.

Effects

Without a meaningful understanding of the interrelationships of fiscal control agencies, staff in accounting offices cannot understand the importance of their providing accurate and timely information to control agencies so they can perform mandated functions. In interviewing staff in the Financial Reports and Apportionments Unit we learned that, in some instances, agency staff had indicated they were unaware that their agency's information was published in the Annual Report. On the other hand, several agency staff we interviewed commented that it is their impression that even the units in the control agencies are unaware of their own role in the reporting process. Thus, the lack of specific knowledge of the roles and responsibilities of the players in fiscal management has an indirect bearing upon the accurate completion of financial statements.

Recommendations

1. The State Administrative Manual should be revised to include detailed descriptions of the roles and responsibilities of all fiscal agencies and units involved in the reporting process. These include: the Fiscal Systems and Consulting Unit and the CALSTARS Unit in the Department of Finance; Financial Reports and Apportionments Unit and Control Accounts Unit in the State Controller's Office; and the Auditor General for its GAAP Basis reporting functions.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: Minimal, since the revisions to the Manual could be incorporated into regular reviews and planned updates.

2. The Department of Finance should develop and provide a course on the roles and responsibilities of the fiscal control agencies, including the functions of the involved units within those agencies.

Responsible Party: Department of Finance, Fiscal Systems and Consulting Unit.

Estimated Costs: There may be significant one-time costs to implement this recommendation.

3. Every accounting course should describe the relationship of all affected control agencies to the particular subject matter of the course. For example, the course on year-end closing provided by the CALSTARS Unit should include a section on how other agencies, (i.e., Financial Operations in the Department of Finance, and the Auditor General) in addition to the State Controller, depend upon the accuracy of data in year-end statements.

Responsible Party: Department of Finance; State Controller's Office; Department of Personnel Administration.

Estimated Costs: Some additional, but minimal staff costs.

4. Accounting office managers should include a discussion of the roles and responsibilities of control agencies not only during year-end work training sessions, as well as in ongoing staff development to their staff.

Responsible Party: Agency accounting office managers.

Estimated Costs: None.

C. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO *INFORMATION PROCESSING*

Although there is substantial involvement of computer technology in some agencies, it is not being fully utilized in most agencies. Moreover, even with expanded utilization of computer technology to accelerate the process, there is considerable unnecessary duplicate information provided in year-end statements.

Of the sixteen agencies we surveyed, including the field offices, all but one used some form of computer capability. Eight of the agencies used either a CALSTARS or other automated accounting system for the majority of accounting work. Ten of the sixteen

agencies used personal computers (six of them, in addition to their central automated system) to complete their year-end statements. Unfortunately, some of the more involved statements, such as the accrual worksheet (Report 2) are required by the State Controller to be submitted on the form prescribed by them unless the agency obtains prior approval from the State Controller to use an alternative format. Although agencies can more easily revise the worksheet using a spreadsheet on a personal computer, they must still provide the information onto the prescribed form except for those using an approved alternative format. We have been informed by the FRA Unit that various spreadsheet formats currently are being examined to develop a format for Report 2 to be used by all agencies.

In addition, there currently are no plans to develop the capability for agencies to electronically transfer year-end information directly to the State Controller's system. This had been proposed when the California Financial Information System (CFIS) was originally designed but was given a low priority. In our interviews with Department of Finance and State Controller's system staff, we found no indication of interest in resurrecting this alternative although the benefits of such an action are clear to all parties.

Staff of CALSTARS agencies perceive the system as complex and inflexible for their specific requirements.

Causes

Interviews with agency staff indicated their perception of the CALSTARS system as being very complex and inflexible in meeting their unique accounting needs. The perceptions about inflexibility appear to relate to the use of a table-driven format, limited ad-hoc reporting, limitations in receiving data after a certain period, and delays in getting requests

completed by the CALSTARS unit. That the system is complex may increase the perceived inflexibility of the system on the part of less knowledgeable staff. This would be particularly likely where CALSTARS replaced a manual system.

Some agency staff raised concerns over ad-hoc reporting limitations and the complexity of the table structures and other system modules. Because of this lack of familiarity with the various system features, some agency staff are reliant upon the expertise of the CALSTARS unit for assistance and performance of certain work. Although there are varying levels of CALSTARS knowledge across state agencies, smaller agencies would tend to have less familiarity with the system as a result of having less staff experience upon which to draw. Sixty-eight percent of the staff surveyed who responded said the CALSTARS unit is readily accessible and helpful in meeting their requests. In follow-up discussions, agency staff stated that staff of the CALSTARS unit are as responsive as can be given their workload in answering system questions or filling various agency requests. Staff interviewed also indicated, however, that CALSTARS analysts appear to be re-assigned fairly frequently. If so, this would tend to reinforce the belief of those staff who consider the system overly complex or inflexible.

In the survey, half of the managers who responded stated that when the agency implemented CALSTARS, the CALSTARS Unit's training effort was satisfactory. Those who felt it was less than expected expressed the view that this may have been because CALSTARS Unit staff were unfamiliar with the system, or implementation planning was inadequate.

Effects

Unfamiliarity with the CALSTARS system results in agencies not being able to tailor the system as close to their accounting needs as they otherwise could. In addition, staffing constraints, attrition, and frequent reassignment of staff at the CALSTARS Unit make it difficult for agencies to receive timely assistance. Ultimately, this limits an agency's ability to use their system to improve ongoing and year-end processing, produce special reports, or monitor financial status.

Recommendations

1. Resurrect the CALSTARS Agency User Group. The purpose of the group would be to share information about the system and its many features, and to discuss common system problems, issues and solutions. Such a group could convene once a month or every two months. A Chair of the Group should be chosen annually from among staff of CALSTARS agencies. In addition, the CALSTARS Unit should assign a liaison person for participation in the User Group.

Responsible Party: Department of Finance, CALSTARS Unit, and assigned staff of CALSTARS agencies.

Estimated Costs: Loss of staff time associated with attending the User Group meetings, and added staff costs to the CALSTARS Unit related to staff participation in the User Group.

2. Establish a policy of not reassigning CALSTARS analysts at year-end time, with the objective of keeping an analyst on the same assignment for at least one year.

Responsible Party: Department of Finance, CALSTARS Unit.

Estimated Costs: None.

3. When training first year agencies, the CALSTARS Unit should train agencies to optimize their use of the basic features of the system, while minimizing any overly complex accounting schemes. For more advanced CALSTARS agencies who have been on-line for several years and wish to tailor the system more to their needs, the CALSTARS Unit should create a new advanced CALSTARS course. This course should emphasize modules of the various system features. The CALSTARS unit could gather input from agencies on system features which agency staff would like to learn. This feedback, as well as information gleaned from the CALSTARS Unit's annual year-end survey of agency staff, could be the basis for the topics to be discussed in this new course. Input from the newly created Agency User Group could also be used to identify potential course content. Some modules could include, for example, ad-hoc reporting, how to utilize RAMIS effectively, and advanced table design and structuring modules.

Responsible Party: Department of Finance, CALSTARS Unit.

Estimated Costs: Unknown.

The timing of CALSTARS programming changes causes severe disruptions and delays in agencies obtaining necessary information for producing their year-end financial statements, and consequently taxes the availability of CALSTARS services at that time.

Causes

In follow-up interviews with those who responded "other" when asked what the primary reasons are for late year-end reports, we found that staff believe a major source of the bottlenecks at year-end is system downtime associated with implementing programming changes (see Exhibit III on Page II-5). Related but secondary to the main issue, agency staff indicated that resources were re-directed near the year-end period to implement system

changes, rather than completing critical year-end tasks. Agency staff indicated, and we later confirmed, that the CALSTARS Unit has determined that year-end is the most appropriate time to initiate system changes.

Effects

The effect of system downtime results in delays in entering information into the system, obtaining timely reports from the system, and checking the input of information. These problems would also lead to additional calling of the CALSTARS Hotline during the critical year-end period, and therefore straining the Hotline resources that may be in place at the time.

According to follow-up interviews with agency staff, data has actually been lost in the system in some cases, due to bugs in the new programs. This downtime, and the unpredictability of when potential downtime may occur, adversely affects agencies' abilities to prepare and submit more timely year-end statements. It should be noted, however, that the CALSTARS unit should be commended for its efforts in coordinating this downtime. This unit has attempted to keep agencies informed of its activities during year-end and has solicited agencies' opinions in an annual survey used for improving their function. It should be emphasized, therefore, that the issue here is one of assessing the advantages and disadvantages of making programming changes at year-end, and not the need for such changes.

Recommendations

1. Review CALSTARS' current system testing methodology for programming changes. The objective of such a review would be to determine additional or improved testing methods available, prior to releasing programming changes to agencies for

implementation, and re-evaluating the benefits of changes and their impacts on agencies. The purpose of enhanced testing would be to reduce system downtime to agencies at year-end time.

Responsible Party: Department of Finance, CALSTARS Unit.

Estimated Costs: There could be substantial costs to the Department; however, the savings to the agencies resulting from improving the process of implementing program changes would partially offset total costs to the State.

2. The CALSTARS Unit should not introduce programming changes any later than May 31st of each year. In addition, it should be the intent of the CALSTARS unit to provide as much lead time as possible for agencies to accommodate the system changes.

Responsible Party: Department of Finance, CALSTARS Unit.

Estimated Costs: None.

3. During peak year-end processing, have data processing staff of the CALSTARS Unit available on the CALSTARS Hotline on weekends, holidays, and extended weekday hours.

Responsible Party: Department of Finance, CALSTARS Unit.

Estimated Costs: Additional overtime hours in the CALSTARS Unit.

Much of the information supplied in specific year-end reports is duplicative.

Causes

One apparent function of the multitude of year-end reports required of each agency is to verify that proper steps have been followed in preparing the statements. The result of this is there is a significant amount of duplicate information provided in various forms and statements within the year-end packet. Although the packet of statements (and certain

individual statements) must bear the certification of the agency director or some other authorized departmental agent, there are checks and balances among the various reports that have been deliberately built in, nevertheless. For instance, Report 5, Final Reconciliation of Controller's Accounts with Final Budget, is the summary of more detailed information provided in Report 6, Summary of Final Budget Report. There is no question that agencies must complete the calculations represented in both reports in order to accurately report fiscal data and to reconcile to State Controller balances. It is not clear, however, why it is necessary to obtain certifications of both reports.

The issue of certification (which may be a minor problem) aside, we understand that the multitude of year-end reports is intended to provide the State Controller with a complete picture of the agency's year-end condition in order to isolate the chance of apparent errors or discrepancies, especially when agency records do not agree with SCO records. It is our understanding that each report is used for specific purposes by the SCO and, therefore, considered necessary to complete a specific stage in the currently established process for preparing the Annual Report.

In addition to the above, there is the appearance of redundancy caused by control agencies requirements of agencies to prepare 1) documents for key entry and 2) audit working papers. Both the State Controller's Office and the Office of the Auditor General have attempted to develop the Accrual Worksheet (Report 2) for verifying correct entries, and Report of Accruals (Report 1) for expediting the data compilation process.

Effects

Redundant information, collected on more than one report, requires verification of changes or corrections of data in several portions of the packet. If a data element appears on more than one report, and those reports are not automatically (i.e., electronically) integrated, then changes must be made to each individual report. Separate adjustments to separate reports for the same adjustment is inefficient and increases the likelihood of error: either the wrong adjustment is made or one report is overlooked. Verification and re-verification of data is compounded with every instance of duplication.

"Forms management" is both a science and an art. It is difficult to predict what amount of simplification of the current package is possible and desirable. It should be recognized that requiring the submittal of a substantial amount of interrelated and duplicative data — in order to assist SCO staff in tracking back inaccuracies — will tend to increase the level of inaccuracy, and therefore be counterproductive.

Recommendations

1. For the 1987-88 Annual Report, the need and utility of information on all required year-end reports should be evaluated for purposes of eliminating information and/or entire reports not needed for compiling the Annual Report. The goal should be to minimize, to the extent practicable, unnecessarily duplicative information. Agencies should use the revised set of year-end reports to prepare their 1987-88 year-end closing package. The State Controller's Office should take lead responsibility for this activity since that office relies upon the year-end statements for compiling the Annual Report and it is in their best interest to reduce the amount of paper they need to process, to reduce the amount of data verification

steps they follow, and to simplify the data compilation process overall. The new packet of forms should be distributed with the State Controller's 1987-88 year-end procedures notification letter.

Responsible Party: State Controller and Department of Finance.

Estimated Costs: Significant staff costs associated with determining the need for information on each report.

The number of required copies of each year-end statement seems excessive.

Causes

Over time, the need for multiple copies of each statement has increased. Currently, an original and a minimum of four copies of each year-end statement are required. The requirements outlined in the State Adminstrative Manual specify that the Department of Finance gets two copies of most statements, the State Treasurer gets one copy of one statement, and the State Controller and Auditor General each get a copy of each statement for each fund. In addition, agencies prepare internal copies.

Effects

All of this impacts the production portion of submitting reports on time. (During the conduct of the survey, one agency indicated that it took 12 days to produce the number of copies they are required to submit to control agencies. Although this admittedly is unusual, it indicates the potential impact on agencies for multiple copies of a myriad of reports.) Also, if a change is made at the last minute, then new copies of that report have to be made. Much of this report duplication appears to be unnecessary.

Recommendations

1. Revise the State Administrative Manual to require two copies of year-end reports to be submitted, one each to the State Controller's Office and the Department of Finance, Financial and Performance Accountability Unit.

Responsible Party: Department of Finance, Fiscal Systems Unit.

Estimated Costs: Minimal, since this recommendation could be accomplished with regularly planned updates to the Manual. Savings in staff time during the year-end process should be realized in some agencies.

D. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO THE *OVERALL PROCESS*

Overall, the financial reporting process, by its nature, has some inherent bottlenecks whose negative effects can only be minimized, not eliminated. Further, the fiscal year cycle may not fit well into the operations cycle of some agencies, thereby causing processing bottlenecks for specific departments.

Considering that each agency currently must compile detailed information to be recorded on a minimum of 18 statements (and some have as many as 10 times that amount depending on the number of funds) within a relatively short period of time, it is not surprising that the process can be slow and difficult to complete on time. There is no disputing the fact that each agency must go through a considerable and well-planned effort to complete the required reports accurately and as close to deadlines as possible. There are, nevertheless, some readily available opportunities for improvement.

The level of detail in accounting systems does not lend itself to rapid compilation of data for year-end statements.

Causes

The production of the State Controller's Annual Report is based upon a "bottom up" approach to compiling financial information. Because each operating agency is responsible for its own books and maintains separate "pieces" of common accounts and funds (e.g., the General Fund), there is a natural "rolling up" process that must occur in order to provide complete information. Within this complex process, however, there is inadequate attention to the issue of materiality of discrepancies and the appropriate level of detail upon which each agency should report its information. At this time, each agency reports to the nearest cent and the State Controller produces its Annual Report to the nearest dollar. The GAAP Basis Report presents data at the nearest one thousand dollars. This is similar to the practices of other states. (See Appendix F, Profiles of Other States.) Even then, however, states such as New York and Maryland have the capability for electronic transfer of data. This makes the time factor involved in processing financial data at low levels acceptable.

Effects

Absent the capability of electronically transferring minute and massive amounts of fiscal data, California is faced with an enormous amount of detailed information flowing into a very narrow conduit. By its nature, accounting requires complete integrity in the maintenance of records and we found evidence of this throughout all of our interviews with agency staff. The cost of reporting information at this level of accuracy, however, potentially exceeds its benefits. In addition, a significant amount of time appears to be spent

by staff in the Financial Reports and Apportionments Unit in the State Controller's Office reconciling discrepancies between agency reports. (See Chapter 3 for related recommendations.)

Recommendations

1. Revised policies on acceptable margins of discrepancies, for reporting purposes only, in agency reports should be established and communicated to staff who review agency statements for producing the Annual Report.

Responsible Party: State Controller's Office, Financial Reports and Apportionments Unit.

Estimated Costs: Should result in savings due to less time spent on reconciling insignificant discrepancies.

2. The issue of materiality should be considered by the State Accounting Advisory Group for the purpose of recommending statewide policies to the Legislature for ensuring professional integrity and providing guidance both to control and operating agencies.

Responsible Party: State Accounting Advisory Group.

Estimated Costs: None.

3. Legislation should be enacted for establishing reporting thresholds in Government Code Section 12461 which would eliminate the requirement for the State Controller to report on appropriations of $9,999 or less. The SCO would continue to maintain control accounts for all appropriations but would not be required to report on all appropriations. The intent of this recommendation is to minimize only the reporting activities of the SCO so as to reduce SCO's verification of data provided by agencies. It is not intended to change 1) the reporting requirements of agencies, nor 2) the control account function with the SCO.

Responsible Party: State Controller's Office and Department of Finance.

Estimated Cost: Should result in substantial savings to the State Controller's Office.

Having different due dates for different financial statements creates additional workload among agencies required to report consistent data.

Causes

Current reporting due dates are: for agencies with General Fund appropriations only, their statements are due July 21; for agencies with General Fund and other governmental funds, their statements are due July 31; all other statements are due August 20. These multiple due dates have been in effect for some time in order to compile information on the General Fund as early as possible. Also, prior to the most recent past, there were fewer governmental and non-governmental cost funds to report on; having multiple deadlines posed few, if any, problems. Our survey showed that the coordination among agencies for reporting fiscal information can be difficult if each agency has a different reporting deadline. There is now a requirement that agencies be more specific about Due To Other Funds/Appropriations and Due From Other Funds/Appropriations/Other Governments. Although we found that many agencies simply reported what they could by their deadline, a more efficient process is required to ensure consistent reporting of data.

Effects

Agencies may spend more time than is needed to reconcile with other affected agencies because of different due dates. Further, the State Controller must review data which is not reported within the same timeframe. This additional but avoidable workload delays the process.

Recommendations

1. Require that all General Fund reports be submitted by July 31 and all other funds by August 31. Designate the State Controller's Office as the agency responsible for setting deadlines and informing state agencies of the consequences of non-compliance. The requirement should include a provision for certifying that agencies coordinated, as needed, with other agencies so that consistent data is reported.

Responsible Party: Department of Finance and State Controller's Office.

Estimated Costs: None.

A. OVERVIEW

"Back-end processing" refers to that portion of the year-end reporting process that begins once state agencies have submitted their year-end statements to the State Controller's Office, Financial Reports and Apportionments Unit (FRA). Essentially, this part of the process is really the conduit through which all fiscal data must proceed. At our request, the FRA expanded upon an existing document and prepared a flow diagram of their activities in preparing for and producing the Annual Report (See Appendix H). As can be seen from the diagram, the process is a complex one, involving many simultaneous steps with key coordination points throughout.

The Annual Report work flow diagram is one of five documents the SCO uses to complete the Annual Report. The other documents are:

- Fiscal System Year-End Closing Processing Plan, for transferring data to the current year Reporting System;
- Plan for the Preparation of the Annual Report, a descriptive outline of necessary steps;
- Target Dates, a schedule of dates of major phases; and
- Schedule for Printing the Annual Report, notification to the State Printer.

In analyzing back-end processing, we collected data from interviews with staff in the FRA and other units within the State Controller's Office and staff of the Auditor General's Office. Over 35 fund statement files and other control documents were reviewed. Data from our survey of state agencies was compared to data found in this part of the project. The majority of our findings made from our review relate solely to the internal activities in the FRA Unit.

B. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO *PERFORMANCE CAPABILITIES*

The task of compiling summary data for producing the Annual Report appears to be made unduly difficult owing to the existence of an inadequate project management plan coupled with staff having insufficient experience in State departmental accounting offices. Moreover, there appears to be insufficient planning related to minimizing the effects of conflicts in workload priorities.

The unit which is largely responsible for publishing the State of California's Annual Report is the Financial Reports and Apportionments Unit (FRA) within the Division of Accounting in the State Controller's Office. This unit is comprised of 26 professional staff with a portion of a stenographer position for limited clerical support. The FRA has three major responsiblities composed of a sundry of activities. The FRA's major responsibilities are: 1) preparing various financial reports on a monthly, quarterly and ad hoc basis; 2) preparing and completing 25 apportionments and other distributions to local governments; and 3) preparing the Annual Report. The FRA estimates that approximately 60.5% of its workload is due to the Annual Report, 22.3% is due to apportionments and other distributions, and the remainder, 17.2% due to miscellaneous assignments (including the Schools program) and reports.

In addition to a review of the FRA's process for producing the Annual Report, information about the apportionments workload was reviewed to identify where shifts in priorities for completing mandated tasks drew resources away from production of the Annual Report. The assumption is that, if staff were not working on the Annual Report, then they would be meeting a statutory requirement for apportioning funds to local governments. Our review of the data provided by the FRA showed that, in addition to other assignments, 10 of

the 26 staff in the unit principally handle the apportionments and distributions. Supplementary activities which support the apportionment work are performed by other staff and supervisors.

Having a less than adequate project management plan for producing the Annual Report hampers the ability of staff in the Financial Reports and Apportionments Units (FRA) to set priorities, allocate resources effectively, manage other workload effectively, and know when critical milestones in the process have been accomplished.

Causes

Management of the year-end reporting process in the FRA has followed a set pattern which was developed for a number of years by previous and current managers. FRA staff indicated that they use a schedule of target dates and the Annual Report Work Flows and Plan to manage the Annual Report project. (The Annual Report Work Flow diagram, provided to us in draft form and dated November 1, 1986, is included as Appendix H.) Progress reports on the completion status of worksheets and fund statements are provided on a weekly basis to the Unit Chief from the supervisors in the FRA unit. We understand that periodic status reports on all phases of the project are provided to the Division Chief. Whenever a status check is made of agency reports, a staff person spends a considerable amount of time reviewing the log currently used by the FRA to record the receipt of statements. Despite not having a detailed project management plan for producing the Annual Report, as such, other workload in the unit — apportionments, other reports and special projects — is managed so as to ensure a consistent allocation of resources needed for producing the Annual Report. The FRA indicated that "when a certain area becomes backlogged, resources are shifted from areas that have a smaller backlog or are working on lesser priority projects".

Effects

Preparation of the Annual Report is a project (as distinct from on ongoing task, such as processing licensing applications). Successful projects of this magnitude require a cohesive, logical series of activities to be completed within specified timeframes. Production of the Annual Report lends itself to a project management approach that includes detailed critical path analysis and resource scheduling. Without a comprehensive and more detailed project schedule, staff are unclear about the critical path that has to be followed in order to meet management deadlines. Management can neither readily identify nor evaluate adequately those areas where additional resources should be allocated to a backlogged area without significant effort, such as by reviewing several log books. Without a detailed project plan for outlining the specific, incremental steps that are needed for completing the numerous tasks, staff in the unit — especially new staff — cannot see the importance of task completion by a set time.

In contrast, the development of a well-designed project management plan would help the SCO staff to achieve a greater degree of "control" over the process — by more accurately identifying and isolating causes of delay in time to take corrective action.

Recommendations

1. The FRA should expand upon its existing planning documents (schedule of target dates, work flow, etc.) to include key information needed for timely completion of the Annual Report. This more detailed plan should be developed in February or March in order to allow sufficient lead time to complete tasks identified early in the schedule and, more importantly, to begin recognizing the level of resources needed to complete all required tasks in the FRA Unit. The more detailed project plan should include:

- major tasks, sub-tasks and their dependent (not merely sequential) relationships, with as much detail as possible;
- identification of necessary resources (staff, time, products) to complete each task and sub-task;
- discretionary and absolute deadlines;
- project milestones and task intervals; and
- task outcomes, tangible or otherwise, at each juncture in the project.

Responsible Party: Unit Chief, Financial Reports and Apportionments Unit.

Estimated Cost: None; in fact, there should be substantial savings, overall, to the FRA Unit once a more detailed project plan is effectively utilized.

2. Status reports, including existing logs maintained for monitoring progress, should be designed in a logical fashion so that information can be readily retrieved. The FRA Unit is planning to automate many, if not all, of its status reports. Management should give priority to this effort since it will help significantly on the overall management of the Annual Report project. For example, if the log on agency statement submissions is set up on a personal computer to record the receipt of statements by date, agency, and fund, then, at any point in time without substantial effort, management can determine which agencies have not submitted their reports and can identify which reports are missing.

The workload related to making several different apportionments to local governments may indirectly interfere with completing the Annual Report.

Causes

The Financial Reports and Apportionments Unit is responsible for 25 separate and distinct apportionments or other distributions to local governments. The frequency of these events is summarized in the chart which follows.

Frequency of Apportionment	Number of Apportionments in Category
Monthly	8
Quarterly	3
Four-month intervals	1
Semi-annually	6*
Annually	6
Ongoing, as requested	1
Total:	25

* For one of these, the last apportionment was made in 1986.

In addition to information on the frequency of apportionments, the FRA Unit estimated the amount of time spent completing the various apportionments and distributions at each interval, including supervisory time. (At this time, according to the FRA, there are no apportionments for Personal Property Tax and Non-Enterprise Special Districts.)

The detailed hourly estimates provided by the FRA Unit indicates that the apportionment activities that will continue in 1987-88 consume about 7,066 hours of staff time. Further analysis shows that during the months of April through December (the time when start-up and processing activities for the Annual Report occur), approximately 5,324 staff hours are spent doing apportionments. For the nine-month period, then, the aggregate number of hours spent each month on apportionments averages about 59 hours per month per person (5,324 ÷ 10 ÷ 9 months). For each of these 10 staff, there would remain about 100 hours a month to work on the Annual Report. The remaining portion of apportionment-related staff effort — approximately 1,742 hours — occurs at times other than during the period in which the Annual Report is produced.

Effects

Staff of the FRA Unit have indicated their belief that there is minimal interference from mandated apportionments with the tasks related to producing the Annual Report, and the data shown above appears to support this contention. This situation must be interpreted cautiously, however, due to the way in which individual staff are assigned specific apportionments, and because specific roles in the Annual Report process show some specialization of duties. At this level there may be considerable coincidence of workload between the two assignments. For example, one staff member is responsible for apportionments which consume about one-half of that person's time during the nine-month period involving Annual Report activities. This person's responsibility in the Annual Report project includes supervising the completion of the General Fund Accrual Accumulation worksheet, one of the most critical and time consuming tasks in the process. (In fact, we have been informed by the FRA staff that virtually every person works on the General Fund at some point in the process.) In another instance, a staff member who is responsible for five apportionments having heavy workloads during the peak Annual Report period (July through September), is also responsible for the preliminary accrual reports including reviewing and completing agency accruals for the final report.

Not all staff in the FRA unit, however, are faced with these kinds of workload demands. For example, two staff appear to have substantial apportionment workloads and minimal involvement in the Annual Report workload, while another staff person's major function involves performing critical preliminary reviews of year-end statements and no apportionment activities.

The effect of having the same staff performing both mandated apportionments and critical Annual Report activities may explain some of the delays in completing the Annual Report. The data does not lead to any clear-cut conclusions, however, since there is no

information to confirm or refute the adequacy of the resource capacity in the unit to complete both apportionments work and the Annual Report. FRA staff have informed us, however, that work conflicts are avoided by utilization of back-up persons (already designated) or other SCO staff to ensure the constant and steady flow of the Annual Report process. We do not know what effect this approach may be having on other business functions of the SCO.

Recommendations

1. The allocation of resources and the assignment of specific apportionments and year-end tasks to individuals should be re-evaluated to ensure that an optimal allocation of workload has been achieved. This review should consider the background and experience of staff to maximize the match of skills to tasks. After this review is completed, re-assignments should be made, if necessary.

Responsible Party: Chief and Supervisors in the Financial Reports and Apportionments Unit.

Estimated Cost: A more efficient allocation of workload may result in substantial savings in both supervision and management, and should increase staff productivity.

The limited experience of staff in the Financial Reports and Apportionments (FRA) Unit may make data verification of agency reports more time-consuming. Moreover, it may also contribute to over-reliance upon key staff for guidance and task completion.

Causes

As mentioned previously in this section, approximately one-third of the staff in the FRA are relatively new to the unit. Only 25 percent of the current staff have had more than one year of experience in the Annual Report process. Six staff had been hired since July 1, 1986. Discussions with FRA supervisors indicated that perhaps only three of the

current 26 professional staff had ever worked in a State accounting office. Six staff had previously worked in the Control Accounts Section within the State Controller's Division of Accounting. All staff are classified as Accountant Trainee or higher and, therefore, must have completed some college-level accounting courses (minimum of 18 units).

There has been a conscious decision to divide the Annual Report workload along the lines of revenues, expenditures, accruals, and central control across all funds, rather than one or a few persons handling individual funds entirely. All staff are trained in a specialized area of producing the Annual Report and proceed through a prescribed methodical review of specific reports in the fund statements submitted by agencies. If there are discrepancies between State Controller records and agency records, the staff person typically pursues the disparity on his or her own, and may contact the agency for clarification. If the issue is more than the person can resolve (that is, a situation which may require higher level involvement), then the supervisor or unit chief will resolve the problem.

Effects

Although FRA supervisors appear to be more than satisfied with the quick learning abilities of the recently hired staff and the high motivation and aptitude of all FRA staff, the effect of inexperienced staff in the FRA unit appears to be an over-reliance upon supervisors and the unit chief for problem resolution. In the absence both of the availability of supervisors and the unit chief, as well as procedures which delineate how to handle specific problems or discrepancies among records, production of the Annual Report can be delayed because: 1) problems will not be resolved in a timely manner; or 2) problems may be resolved incorrectly by inexperienced staff, requiring correction later on. It should be noted,

though, that less reliance upon supervisors will result as recently hired staff gain experience from the Annual Report project.

Recommendations

1. Considering the number of new staff involved in producing the Annual Report, the FRA should indicate early in the project clear policies for resolving problems and discrepancies. There should be a protocol for problem resolution that would guide staff in terms of what problems or discrepancies they could handle themselves, those that require supervisors approval, and those that require unit chief approval. This would improve the utilization of staff time expended in resolving problems.

Responsible Party: Supervisors and unit chief in Financial Reports and Apportionment Unit.

Estimated Cost: None; in fact, significant savings should be realized from staff operating more independently, freeing up supervisors and managers to perform management functions.

C. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO *INFORMATION PROCESSING*

The process in which data is compiled could be substantially improved with more effective utilization of computer technology. The effort needed to report the level of detail at which data is compiled appears to be incongruous with the utility of the resulting information. Policies and procedures for producing the Annual Report may not be consistent with its overall purpose.

As with any other accounting function, it is important to keep in mind the objectives to be met by producing the combined financial statements of an entity. One objective is producing the financial report in a timely, cost-effective manner. Another objective, often, is to meet legal requirements; for the State of California, its own laws require that a complete

and final report be produced in a prescribed form according to specific standards. Similarly, corporations produce annual financial statements which are audited and meet the requirements of local, state and federal laws, including, as appropriate, the regulations of the Security Exchange Commission. Another objective is to provide investors or potential investors (which, in the case of the State of California, can be taken to include both taxpayers and bond holders) with accurate, timely, and complete information on the financial condition of the "company." While there are no indications that the general public is interested in (nor concerned about the "lateness" of) the Annual Report, security analysts would be presumed to have an interest in the detailed information provided by the report. According to our interviews with staff at Standard and Poor's, however, they do not rely upon the Annual Report for timely information about California's financial conditions (which they attempt to judge on the basis of a multitude of other economic, financial and political data). They use the Report as a resource document for developing historical trends, reviewing bonded indebtedness over time, and other longer term purposes. Moreover, one representative indicated that while it is important for there to be a current financial report, in lieu of one, pertinent information "is available when needed."

In short, it would be difficult to justify major investments to a system technology in order to process this massive amount of data a few weeks earlier. On the other hand, the systems that exist could be used more effectively, if the volume of data were reduced to a level commensurate with what is really required.

It appears the majority of activities in the back-end processing phase lend themselves to automation. Although 60% of the pages in the Annual Report are produced automatically from the SCO's system, relatively little of the compilation of data effectively utilizes available computer technology. Current plans for continued "automation" of the process continue to focus on the printing of the Annual Report, with lower priority given to data compilation.

Causes

With the assistance of the Systems Management Section in the State Controller's Office, the Financial Reports and Apportionments Unit (FRA) has developed revenue and expenditure worksheets that are produced from the central computer system. Data for accruals and adjustments are key-entered by a unit outside of the FRA. At the time of our review, the expenditure and revenue statements and workpapers (which represents 60% of the pages in the Annual Report) were automated. Appendix I is the automation plan provided to us by the FRA.

As can be seen from Appendix I, the FRA plans to publish a completely automated Annual Report for the 1988-89 fiscal year; that is, its Annual Report activities in the fall of 1989. The focus of the automation plan, however, is on printing the report, not on the compilation of data which comprises the report. Moreover, interviews with staff in the FRA confirm the fact that desk-top publishing is the priority automation project for the Division of Accounting. Currently, there are only two personal computers available to the FRA Unit. At this time, the FRA indicated that currently planned uses of personal computers were not for worksheets, spreadsheets, or other workpapers for preparing information for the Annual Report. Rather, personal computers are used for monthly reports, word processing, and apportionments since, according to FRA staff, this is the most effective use of the two computers. Further, the priorities recognized by the Office Automation Section for the Division of Accounting are as follows: desk-top publishing; state mandated costs; remittance

advices; and finally, worksheets (in the FRA unit). Thus, the automation of worksheets to prepare data for inclusion in the Annual Report has a lower priority than desk-top publishing.

Effects

Currently, staff in the FRA type column and row headings and hand-write their notations on large spreadsheets on which agency data for the majority of funds is compiled. According to FRA supervisors and the unit chief, staff prepare and type the fund worksheets prior to June 30 so that information can be readily posted. (See Appendix H, Annual Report Workflow Diagram.) If adjustments to information are made, then the worksheets are corrected or erased, and the related adjustments are entered into the SCO computer system to correct the automated statements. This requires a significant amount of time not only to make the initial adjustments, but also to make the additional adjustments on other worksheets. This process is inefficient and prone to error, particularly in terms of the compilation of data for all funds. The FRA Unit has informed us that it plans to improve this process by automating the governmental cost funds through the SCO computer system and the non-governmental cost funds on personal computers, once additional personal computers are available. These plans include production of the Report ultimately through the use of desk-top publishing.

Recommendations

1. The FRA Unit should set up all worksheets on electronic spreadsheets, with appropriate linkages to each other so that one adjustment is made for correcting information as needed. Spreadsheets should be developed to include user identification, date and time of use, and relationships to other worksheets.

Responsible Party: Financial Reports and Apportionments Unit.

Estimated Costs: The cost of staff time to initially developed spreadsheets would be offset by the savings resulting from a more efficient and accurate system.

2. The priority for complete automation of the data compilation segments of producing the Annual Report should be placed higher on the list of automation needs within the Division of Accounting. This should include existing or newly acquired personal computers being made available to the FRA Unit. The intent of this recommendation is to accelerate the FRA Unit's transition from the use of manual spreadsheets to integrated electronic spreadsheets on personal computers.

Responsible Party: Division Chief, Division of Accounting.

Estimated Costs: Costs of acquiring additional personal computers, as needed.

3. Seasonal clerical staff should be hired during the months of June through August to perform the clerical activities currently handled by professional staff, thereby freeing up professional staff to perform analytical and accounting activities.

Responsible Party: Unit Chief, Financial Reports and Apportionments Unit.

Estimated Costs: Approximately $8,000 for two temporary staff for three months.

The functional allocation of activities in the Financial Reports and Apportionments Unit seems to require an unnecessary amount of re-processing of data.

Causes

As mentioned previously, the allocation of workload among the staff in the FRA Unit is by type of financial component — revenues, expenditures, accruals, and a fourth category known as central control. This means, for instance, that a staff person may process only revenue portions of several agency reports; others may perform all the expenditure data compilation functions. Each of these activities occurs simultaneously and independently. As fund files are processed, staff initial the file, and sometimes include the date on which the file was processed. Problems arise whenever adjustments are made that affect processing which has already occurred for that fund. This requires the person who makes the adjustment to inform those who have placed their initials on the file's checklist to confirm whether or not their adjustment will affect the previous work. Again, dates are not consistently included. Although staff are extremely cooperative and attempt to keep each other informed, the system, by its nature, is susceptible to error and delay.

The basis of this functional allocation of activities, we were told, is two-fold: it provides checks-and-balances for ensuring that data is compiled accurately (i.e., quality control) and, secondly, it allows staff to have a variety of job assignments. Additionally, one supervisor indicated that since it would be difficult for a person to know all there is to know about all aspects of every function, having specialized assignments is the only way to allocate the workload.

Effects

Under this scenario, no one person knows the status of any fund. Several people must collaborate on data about any fund; considering there are about 500 funds to report on, accomplishing this by working with small pieces of the picture may not be the most efficient

process. Further, the probability of error is higher when several people are involved in reviewing, analyzing and compiling the same data. This system also may result in two or more people contacting the agency for information which, perhaps, could have been handled in one telephone call. Finally, the more time that elapses between successive adjustments increases the likelihood that more extensive, later adjustments have to be traced completely through the system owing to the previous build up of data.

In our survey of agencies, none of the 16 agencies prepared their reports in a functional arrangement. Fund statements typically were prepared in total by the same person or group of persons. It should be noted that a functional allocation of activities may make sense for large funds such as the General Fund, since over 200 agencies report activities in General Fund appropriations.

Recommendations

1. Consideration should be given to assigning workload on the basis of each fund, rather than having staff compile data on the basis of financial components. This may be more efficient for most funds except large funds, such as the General Fund, where several staff are needed to process the data.

Responsible Party: Unit Chief, Financial Reports and Apportionments Unit.
Estimated Costs: Unknown until the specific impacts are identified.

2. Procedures should be immediately developed which require staff to enter the date and their initials into the fund file so that staff who work the file thereafter know the sequence of adjustments, thereby saving verification time.

Responsible Party: Supervisors, Financial Reports and Apportionments Unit.

Estimated Costs: None.

D. FINDINGS, CAUSES AND EFFECTS, AND RECOMMENDATIONS RELATED TO THE *OVERALL PROCESS*

> *The "self discipline" of the State of California to produce its Annual Report in a timely manner has been ineffective. There are too few check points throughout the process to ensure the timely publication of the Annual Report. Communication channels between control agencies and operating agencies are not optimal in terms of the mechanics of gathering, submitting, and compiling data.*

The incentive to produce a timely Annual Report is strong among the people involved in its daily production. There is no question that staff of the State Controller's Office and each agency we contacted were interested in a complete, accurate, and timely compendium of information being produced. Despite their best efforts, however, the report has continually taken longer to produce than either desirable or expected. Within the context of State government overall, production of the Annual Report in a timely manner is not a high-priority unless there is a fiscal crisis. Whenever there is a lot of interest in the financial affairs of the state, the issue of the timeliness of the Annual Report can re-surface. In other words, the incentive for producing an Annual Report on time increases with the attention drawn to it by those uninvolved in its production. On the other hand, there is no sustained expectation as to the timeliness of the Report.

Of the four states we contacted for comparative purposes, all but one have a statutory or regulatory deadline for producing their Annual Report. Appendix F is a summary of the information we gathered about the procedures other states of comparable size or organizational structure follow in producing their Annual Reports. Our interviews with

states indicated that they believe the established deadlines do play a significant role in inducing governments to produce timely reports.

In the absence of firm deadlines for the legal basis and GAAP basis reports, there is a reduced incentive for the State as a whole to produce the Annual Report in a timely manner.

Causes

It appears that, although there has been an interest in setting statutory deadlines for completion of the legal basis and GAAP basis reports, this interest tends to wane in the face of assurances that the State of California will produce an Annual Report as soon as it can, and that delays are an unavoidable characteristic of the system. The question has been raised: "Who cares if the report is published on time?" The absence of a deadline set in statute or regulation connotes an informal understanding that the intention is to avoid imposing extra burdens upon the affected agencies to allow other priorities to prevail as circumstances dictate.

Effects

It appears that, over time, the need and desire for a timely report has been compromised by other needs and desires. Interest in the Annual Report — late or otherwise — is limited to a small number of officials and organizations. Only when a fiscal crisis looms is there a more broad-based concern over the "lack" of information when, under "normal" conditions, this lack of information had gone virtually unnoticed.

Recommendations

1. Set statutory deadlines for completing both the legal and GAAP basis reports. The legal basis report deadline should be November 30 in order to ensure that GAAP

adjustments and a final GAAP basis report will be completed by December 31. This recommendation is made with the understanding that published versions of both the legal basis and GAAP basis reports could not be completed by these deadlines. The intent of this recommendation is that both reports should be available in print-ready versions by these deadlines. Further, the data in the completed legal basis report can be utilized by the Department of Finance in preparing the next year's budget. Although an ideal system would have the data compiled and ready for publishing within 120 days of the end of the fiscal year, there are outside audit reports typically not completed until mid-to late November. Since the State Controller's Office needs to incorporate these statements into the Annual Report data, a more appropriate deadline for the legal basis report is November 30. With the GAAP basis report completed by the end of December, California will meet the requirements of bond rating agencies.

Responsible Party: Department of Finance and State Controller's Office.

Estimated Costs: None.

Agencies receive different communiques from control agencies intended to provide technical guidance which, instead, are often confusing with inconsistent requirements.

Causes

Our review of management memoranda sent by the Department of Finance and the year-end letter sent by the State Controller's Office suggest that perhaps some of the confusion about what agencies are supposed to do to meet control agency requirements is due to confusion in the correspondence distributed to them. For example, in the 1985-86 year-end letter to agencies, information about critical "do's and don't's" is discussed on page

6 of the letter. It seems more appropriate for this kind of information to be highlighted early in the letter. Similarly, Management Memo 86-6 from the Department of Finance instructs agencies on how to prepare their year-end statements. It indicates three separate units to contact if there are questions about the year-end process (Fiscal Systems and Consulting Unit and the Financial and Performance Accountability Unit in the Department of Finance, and the State Controller's Office). It does not specify the staff person to be contacted or the types of questions that could be answered by each entity. We understand that the Department of Finance and the State Controller's Office currently coordinate the content of communiques sent to the agencies. Based on our review of the documents, it appears that the effectiveness of this coordination could be improved.

Effects

The absence of detailed and clearly presented instructions about how to provide specific information in response to control agency directives causes confusion and additional workload (in the form of the need for further inquiry) for operating agencies. Agency staff often will contact their colleagues in other agencies to determine how they should proceed to fulfill the requirement. There is no guarantee, however, that information which is obtained this way is reliable.

Recommendations

1. All communiques to agencies which involve more than the distributing control agency should be developed in coordination with all involved agencies. The names and telephone numbers of staff responsible for providing technical assistance and answering questions should be included.

Responsible Party: All control agencies.

Estimated Costs: Minimal.

2. The year-end letter from the State Controller's Office should be revised. The letter should be organized in the following sections:

- key changes in the year-end process;
- identification of staff (with telephone numbers and hours of availability) that should be contacted for answering questions;
- summary of all requirements for reporting accruals and encumbrances;
- a sequential ordering of all attachments with more detailed descriptions of attachments in the body of the letter; and
- copies of memoranda issued after the prior year's year-end letter was distributed.

In addition, clear descriptions of how an agency would obtain approval from SCO on alternative formats of specific reports should be included. Finally, the SCO should establish a mechanism for monitoring the delivery and receipt of year-end letters to agencies.

Responsible Party: State Controller's Office, Division of Accounting.

Estimated Costs: Minimal.

APPENDIX A

LIST OF AGENCIES INTERVIEWED

AGENCY	#Mgrs Surveyed	#Staff Surveyed
Board of Equalization -	2	2
California Post-Secondary Education Commission -	1	1
Department of Alchohol and Drugs -	1	3
Department of Commerce -	1	2
Department of Corrections -	3	3
Department of Developmental Services -	1	3
Department of Forestry -	1	3
Department of Food and Agriculture -	2	3
Department of Health Services -	1	4
Department of Housing and Community Development -	1	3
Department of Motor Vehicles -	1	3
Department of Social Services -	2	3
Employment Development Department -	3	3
Franchise Tax Board -	1	3
Secretary of State's Office -	1	3
Water Resources Control Board -	1	1
TOTAL INTERVIEWED	23	42

APPENDIX B

OFFICE OF THE AUDITOR GENERAL

Financial Reporting Process Study

Survey for Accounting Managers

NAME:_____ DEPT:_____

CLASSIF/TITLE:_____ DATE:_____

GENERAL

1. Where would you say your agency's accounting and financial reporting functions fall compared to overall agency priorities?

   __ very high

   __ high

   __ neither high nor low

   __ low

   __ very low

   __ don't know

2. For your agency, which accounting function almost always takes priority over other functions?

   __ reconciliations

   __ accounts payable

   __ accounts receivable

   __ allotment/expenditure ledger

   __ fund accounting

   __ financial reports (such as year end reports)

   __ revenues

   __ other (specify)

3. Why is the above the top priority?

_____

_____

_____

4. Has program budgeting made your accounting functions/activities:

__ more complicated __ no effect __ simpler than before

__ don't know

5. Does your agency maintain a written management or task plan that governs the year end process in terms of tasks, responsibilities and timelines?

__ yes __ no

6. If yes, is the plan followed consistently? If no, how is the work managed?

_____

_____

_____

7. What were the number of funds (including General Fund accounts) in:

___ 1983-84 ___ 1984-85 ___ 1985-86

8. What other units within your agency are involved in the accounting or financial reporting area?

__ fiscal systems unit - explain _____

__ EDP unit - explain _____

__ internal audits unit - explain _____

__ other (specify) - _____

9. How often in the past two fiscal years and at what time, have the following agencies audited some area in accounting?

   __ Dept. of Finance; when_____ Aud. Gen.; when_____

   __ DGS; when_____ State Controller; when_____

   __ Office of Inspector General (Federal); when_____

STAFFING

10. How many personnel years are allocated in the 1986-87 budget to the accounting unit?

    _____ PY's

11. How many positions are currently in this unit? _____

12. How many of these positions currently are vacant? _____

13. What were the number of personnel years allocated to the accounting office in:

    ___ 1983-84 ___ 1984-85 ___ 1985-86

14. How long does it typically take to fill a vacancy in this unit? _____

15. What would you estimate to be the average staff turnover rate in the accounting unit over the past several years? (turnover is the proportion of authorized positions that become vacant and need to be refilled)

    __ 5% or less

    __ 6% - 10%

    __ 11% - 15%

    __ 16% - 20%

    __ 21% or greater

    __ don't know

16. For CALSTARS or other automated systems, were any of your accounting personnel classifications upgraded to reflect the change in accounting processes?

__ yes __ no __ don't know

17. Does the unit responsible for year end closing normally work overtime to perform its year-end duties?

__ yes; how many total hours?_____ __ no

TRAINING/TECHNICAL ASSISTANCE

18. If your department is a CALSTARS agency, how would you characterize the training and implementation effort of the CALSTARS unit (at DOF) to convert from your old system to CALSTARS?

__ excellent __ satisfactory __ less than expected

__ don't know

19. If the answer to the above was "less than expected," what were the possible causes for this?

__ DOF staff were unavailable

__ DOF staff were unfamiliar with CALSTARS

__ implementation planning was unsatisfactory

__ other (specify)

20. Are any problems still apparent from the implementation stages?

__ yes __ no

21. Would you say that the qualifications of the accounting personnel classifications (including educational requirements) are appropriate for performing typical accounting duties assigned to that class?

__ yes __ no; how?_____

22. How are training priorities set in the accounting office?

__ mandatory attendance at State courses

__ first come, first served

__ formal training schedule

__ newest staff members trained first

23. How would you rate the current accounting courses offered by the State?

__ excellent __ satisfactory __ poor

24. In what areas would you like to see more formal training?

__ reconciliations

__ year end process

__ accounting as it relates to program budgeting

__ accounting theory courses

__ role of the state fiscal agencies

__ more technical accounting courses

__ other (specify)

25. Does your own agency have a formal training program for your accounting staff?

__ yes __ no

RECONCILIATION/YEAR END PROCESS

26. Are the required reconciliations (monthly and quarterly) performed on a timely basis (i.e., soon after each month or quarter)?

__ yes __ no

27. If no, what is the primary reason for lack of timely preparation (choose one)?

__ other priorities

__ too many technical or data entry errors to reconcile

__ errors in judgment or lack of knowledge of certain transactions

__ other (specify)

28. In order for your agency to prepare its year end reports, does SCO provide data on balance of accounts to you on a timely basis?

__ yes __ no

29. Are year end financial reports reviewed by you or a superior, prior to submission to the State Controller's Office?

__ yes __ no

30. If you have submitted a late year end report to SCO within the past several years, what would you say was the primary (choose one) reason for the lateness?

__ other priorities that occurred during that time

__ problem with completing one particular report (specify)

__ difficulty in reconciling to the various accounts

__ getting necessary data to prepare reports on time

__ getting necessary data from field offices on time

__ sheer volume of year end report processing workload

__ the influence of budgeting/expending budgeted funds

__ number of adjusting entries at year end

__ other (specify)

31. Would you say preparing the year end accrual worksheet is any more difficult than the other year end reports?

__ yes __ no

32. If yes, what is the primary reason for this?

__ reconciliation problems during the year

__ end of year scramble to encumber funds

__ accurately estimating the accruals

__ reconciling to the year end Controller account balances

__ other (specify)

33. In your opinion, is the amount of detail required for year end processing too much?

__ yes __ no

34. If yes, what, in your opinion, could be done to make the processing of year end reports more efficient?

_____

_____

_____

35. In your opinion, what is the motivation for preparing and submitting year end reports in a timely manner?

__ the need for past year budget information

__ complying with deadlines for year end reports imposed by SCO

__ agency pressure

__ sense of professionalism

__ relative to other priorities, no strong motivation

36. In your opinion, what are the bottlenecks in processing your year end reports?

_____

_____

_____

37. Any general comments about how year end reporting could be improved?

_____

_____

_____

APPENDIX C

OFFICE OF THE AUDITOR GENERAL

Financial Reporting Process Study

Survey for Front Line Supervisors and Accounting Staff

NAME:_____ AGENCY:_____

CLASSIFICATION:_____ DATE:_____

GENERAL

1. What accounting functions are you involved in directly?

   __ accounts payable/disbursements

   __ accounts receivable/revenues

   __ reconciliations (monthly/quarterly)

   __ general ledger

   __ fund accounting, _____ no. of funds

   __ other (specify)

2. What is the classification of the person to whom you directly report?

   _____

3. Does your unit maintain written accounting procedures?

   __ yes __ no

4. If yes, how often do you refer to these procedures?

   __ daily

   __ weekly

   __ monthly

__ very seldom

5. When were these procedures last updated?

__ within the past year

__ within the past two years

__ more than two years ago

RECONCILIATIONS

6. How often do you reconcile to State Controller's control accounts?

__ monthly only

__ quarterly only

__ monthly and quarterly

__ only at year end for the previous 12 months

__ other (specify)

7. After the end of the month or quarter, how soon is the reconciliation done?

__ by the 5th of the month for the preceding month/quarter

__ between the 6th and 15th of the month for the preceding month/quarter

__ between the 16th and 25th of the month for the preceding month/quarter

__ after the 26th of the month/quarter for the preceding month/quarter

8. Are the reconciliations dated and initialed by you or someone else?

__ yes __ no

9. Who reviews the reconciliation documents within your agency?

Name/Title:_____

10. Are the reconciliation documents used for other purposes, such as for audits? other documentation? Explain.

_____

_____

_____

11. Do you use a prescribed format for reconciliation, or is it a less formal process? Explain.

_____

_____

_____

12. Describe in specific detail, the steps taken to reconcile:

monthly_____

_____

_____

quarterly_____

_____

_____

year-end_____

_____

_____

YEAR END REPORTS

13. When preparing year end reports, is the process followed or activities performed:

__ substantially different from the ongoing related work during the year

__ somewhat different from the ongoing related work during the year

__ similar to the ongoing related work during the year

14. What part of the your agency's reporting system is automated? Describe the automated features (e.g., budget reports, fund balances).

_____

_____

_____

15. How is the work for year end reports broken out in your unit?

__ by fund

__ by type of report

__ other (specify)

16. Are specific year end reports prepared or handled by more than one party?

__ yes; explain _____

__ no

17. Are year end reports that are prepared by you reviewed or approved by your supervisor?

__ yes __ no

18. How are year end accruals estimated? (check as many as appropriate)

__ based on encumbered amounts

__ total invoices for goods/services received

__ based on historical accrual amounts in prior years

__ based on a best guess of anticipated accruals

__ other (specify)

19. How soon after June 30th (for the most recently completed fiscal year) was the year end accrual worksheet completed?

    __ by July 20

    __ by July 31

    __ by August 20

    __ after August 20

20. Would you describe preparation of the year end accrual worksheet as:

    __ complex __ somewhat difficult __ straightforward

21. What are your suggestions for improving preparation of the accrual worksheet?

    _____

    _____

    _____

22. How soon after June 30th is information available to prepare the required year end reports?

    __ immediately after June 30th

    __ within 10 days

    __ within 20 days

    __ after 20 days

23. Would you describe preparation of the year end reports generally as:

    __ complex __ somewhat difficult __ straightforward

24. If you have submitted late year end reports to SCO, what would you say are the three primary reasons for the lateness (rank the top three reasons)?

    __ difficulty in reconciling to the various accounts

    __ difficulty in gathering necessary data in a timely fashion (what kind of data?)_____

    _____

__ difficulty in gathering necessary data from field offices (what kind of data?)_____

_____

__ sheer volume of workload and reports required

__ the influence of expending budgeted funds

__ number of year end adjustments

__ other accounting priorities that occur during year end closing time

__ other (specify)

25. If the answer to question 24 is "other accounting priorities," what is the primary cause that sets aside year end reports?

__ payroll

__ paying current year bills

__ setting up new accounts for the new fiscal year

__ budget adjustments

__ other (specify)

26. If your agency has field offices that perform accounting functions, do all reports and reconciliations have to be submitted, reviewed, and approved by headquarters prior to release?

__ yes __ no

27. Are there written procedures that govern the roles and responsibilities between field offices and headquarters relating to accounting and financial reporting?

__ yes __ no

28. Are there bottlenecks in the processing of year end reports?

__ yes __ no

29. Identify below specifically where the bottlenecks occur.

_____

_____

_____

30. What specifically (describe below) would you suggest to refine the process or reduce duplication of effort?

_____

_____

_____

31. In your opinion, what would make your participation in year end closing more efficient?

__ more training

__ increased guidance or direction from the Controller's Office or the Department of Finance

__ streamlining the process, such as reducing the number of required year end reports

__ enhanced automation of the process

__ other (specify)

TRAINING/TECHNICAL ASSISTANCE

32. Would you characterize the use of SAM in the performance of your accounting duties as:

__ always helpful

__ sometimes helpful

__ confusing, not helpful

33. Check the courses listed below that you know are available to accounting staff.

__ DPA Year End Course

__ DPA State Accounting Course

__ DOF Year End Course

__ DOF State Fund Accounting Course

__ DOF (CALSTARS) Reconciliation Course

__ DOF (CALSTARS) Year End Course

34. Have you attended any of the above courses within the last two years?

__ yes __ no

35. Which course(s) did you attend, and how would you rate them?

	Excellent	Satisfactory	Less than Satisfactory
__ DPA Year End Course			
__ DPA State Accounting Course			
__ DOF Year End Course			
__ DOF State Fund Accounting Course			
__ DOF (CALSTARS) Reconciliation Course			
__ DOF (CALSTARS) Year End Course			

36. For those courses that were less than satisfactory, specifically, how do you think they could be improved?

_____

_____

_____

37. Do you feel there is a need for more courses to be offered in the accounting and financial management areas?

__ yes __ no

38. Which areas?

__ general course on fiscal agencies' roles (DOF, SCO, Treasurer)

__ year end closing process

__ reconciliations

__ more on how accounting ties into the budget process

__ more accounting theory courses

__ more general accounting courses

__ other (specify)

39. For CALSTARS or other automated systems, were you involved in the initial implementation in your agency?

__ yes __ no

40. If yes, what was your role?

_____

_____

_____

41. What type of formal training does your own department or unit offer in the accounting or financial management area?

__ required to attend one of the courses offered by DPA or DOF

__ formal training program within the department

__ formal cross-training among jobs

__ other (specify)

42. When you have any questions relating to reconciliations, do you contact the same person at SCO?

__ yes __ no

43. If no, who do you contact instead?

__ DOF, Fiscal Systems Consulting Unit __ other (specify)_____

44. If you work in a CALSTARS agency, do you find the CALSTARS unit (at DOF) readily available and helpful to answer questions or for technical assistance in general?

__ yes __ no

45. If your agency is not on CALSTARS, do you find the unit you contact for technical assistance is readily available and helpful? (which unit_____)

__ yes __ no

46. If no, who do you contact instead?

__ SCO

__ DOF, Fiscal Systems Consulting Unit

__ other (specify)

47. Have you ever attended a writing course?

__ yes __ no

describe_____

48. Have you ever attended an oral presentation course?

__ yes __ no

describe_____

49. Have you ever attended any data processing courses?

__ yes __ no

describe_____

APPENDIX D

SUMMARY OF SURVEY RESPONSES

OFFICE OF THE AUDITOR GENERAL

Financial Reporting Process Study

Survey for Accounting Managers

NUMBER OF SURVEYS: 23

%	No.	
		GENERAL
		Where would you say your agency's accounting and financial reporting functions fall compared to overall agency priorities?
13%	3	__ very high
35%	8	__ high
43%	10	__ neither high nor low
9%	2	__ low
—	—	__ very low
—	—	__ don't know
		For your agency, which accounting function almost always takes priority over other functions?
26%	6	__ reconciliations
39%	9	__ accounts payable
—	—	__ accounts receivable
—	—	__ allotment/expenditure ledger
4%	1	__ fund accounting
22%	5	__ financial reports (such as year end reports)
—	—	__ revenues
9%	2	__ other (specify)

%	No.	
		Has program budgeting made your accounting functions/activities:
48%	11	__ more complicated
17%	4	__ no effect
13%	3	__ simpler than before
22%	5	__ don't know
		Does your agency maintain a written management or task plan that governs the year end process in terms of tasks, responsibilities and timelines?
83%	19	__ yes
17%	4	__ no
		What other units within your agency are involved in the accounting or financial reporting area? (multiple answers possible)
43%	10	__ fiscal systems unit - explain _____
39%	9	__ EDP unit - explain _____
22%	5	__ internal audits unit - explain _____
28%	12	__ other (specify) - _____
		How often in the past two fiscal years and at what time, have the following agencies audited some area in accounting?
52%	12	__ Dept. of Finance; when_____
74%	17	__ Aud. Gen.; when_____
13%	3	__ DGS; when_____
30%	7	__ State Controller; when_____
30%	7	__ Office of Inspector General (Federal); when_____

%	No.	

STAFFING

How many positions are currently vacant? _____

48%	11	0 or 1 positions vacant
22%	5	2 to 3 positions vacant
13%	3	4 to 5 positions vacant
17%	4	6 ore more positions vacant

How long does it typically take to fill a vacancy in this unit? _____

43%	10	less than 6 weeks
48%	11	7 to 10 weeks
9%	2	greater than 11 weeks

What would you estimate to be the average staff turnover rate in the accounting unit over the past several years? (turnover is the proportion of authorized positions that become vacant and need to be refilled)

4%	1	__ 5% or less
48%	11	__ 6% - 10%
22%	5	__ 11% - 15%
9%	2	__ 16% - 20%
17%	4	__ 21% or greater
—	0	__ don't know

For CALSTARS or other automated systems, were any of your accounting personnel classifications upgraded to reflect the change in accounting processes?

43%	10	__ yes
48%	11	__ no
4%	1	__ don't know
4%	1	__ no response

%	No.	
		Does the unit responsible for year end closing normally work overtime to perform its year-end duties?
87%	20	__ yes; how many total hours?_____
13%	3	__ no

TRAINING/TECHNICAL ASSISTANCE

If your department is a CALSTARS agency, how would you characterize the training and implementation effort of the CALSTARS unit (at DOF) to convert from your old system to CALSTARS? (11 answered this question)

—	0	__ excellent
45%	5	__ satisfactory
45%	5	__ less than expected
9%	1	__ don't know

If the answer to the above was "less than expected," what were the possible causes for this? (6 answered this question, multiple answers possible)

33%	2	__ DOF staff were unavailable
66%	4	__ DOF staff were unfamiliar with CALSTARS
50%	3	__ implementation planning was unsatisfactory
16%	1	__ other (specify)

Are any problems still apparent from the implementation stages?

36%	4	__ yes
54%	6	__ no
9%	1	__ no reponse

Would you say that the qualifications of the accounting personnel classifications (including educational requirements) are appropriate for performing typical accounting duties assigned to that class?

61%	14	__ yes
35%	8	__ no; how?_____
4%	1	__ no response

%	No.	
		How are training priorities set in the accounting office? (multiple answers possible)
35%	8	__ mandatory attendance at State courses
9%	2	__ first come, first served
43%	10	__ formal training schedule
17%	4	__ newest staff members trained first
13%	3	__ other
9%	2	__ no response
		How would you rate the current accounting courses offered by the State?
9%	2	__ excellent
48%	11	__ satisfactory
17%	4	__ poor
26%	6	__ no response
		In what areas would you like to see more formal training? (multiple answers possible)
52%	12	__ reconciliations
22%	5	__ year end process
39%	9	__ accounting as it relates to program budgeting
13%	3	__ accounting theory courses
30%	7	__ role of the state fiscal agencies
39%	9	__ more technical (govermental) accounting courses
17%	4	__ other (specify)
17%	4	__ no response
		Does your own agency have a formal training program for your accounting staff?
30%	7	__ yes
65%	15	__ no
4%	1	__ no response

%	No.	

RECONCILIATION/YEAR END PROCESS

What is the primary reason for lack of timely reconciliation preparation (choose one)? (out of 13 who responded)

46%	6	__ other priorities
15%	2	__ too many technical or data entry errors to reconcile
7%	1	__ errors in judgment or lack of knowledge of certain transactions
31%	4	__ other (specify)

In order for your agency to prepare its year end reports, does SCO provide data on balance of accounts to you on a timely basis?

91%	21	__ yes
0%	0	__ no
9%	2	__ no response

Are year end financial reports reviewed by you or a superior, prior to submission to the State Controller's Office?

74%	17	__ yes
13%	3	__ no
13%	3	__ no response

%	No.	
		If you have submitted a late year end report to SCO within the past several years, what would you say was the primary (choose one) reason for the lateness? (15 responded to this question)
20%	3	__ other priorities that occurred during that time
6%	1	__ problem with completing one particular report (specify)
13%	2	__ difficulty in reconciling to the various accounts
20%	3	__ getting necessary data to prepare reports on time
—	0	__ getting necessary data from field offices on time
6%	1	__ sheer volume of year end report processing workload
6%	1	__ the influence of budgeting/expending budgeted funds
—	0	__ number of adjusting entries at year end
27%	4	__ other (specify)
		Would you say preparing the year end accrual worksheet is any more difficult than the other year end reports?
35%	8	__ yes
43%	10	__ no
22%	5	__ no response
		If yes, what is the primary reason for this? (Out of 8 responses)
—	0	__ reconciliation problems during the year
38%	3	__ end of year scramble to encumber funds
25%	2	__ accurately estimating the accruals
12%	1	__ reconciling to the year end Controller account balances
25%	2	__ other (specify)

%	No.	
		In your opinion, is the amount of detail required for year end processing too much?
22%	5	__ yes
56%	13	__ no
20%	5	__ no response
		In your opinion, what is the motivation for preparing and submitting year end reports in a timely manner? (multiple answers possible)
30%	7	__ the need for past year budget information
60%	14	__ complying with deadlines for year end reports imposed by SCO
—	0	__ agency pressure
43%	10	__ sense of professionalism
8%	2	__ relative to other priorities, no strong motivation

APPENDIX E

SUMMARY OF SURVEY RESPONSES

OFFICE OF THE AUDITOR GENERAL

Financial Reporting Process Study

Survey for Front Line Supervisors and Accounting Staff

NUMBER OF SURVEYS: 42

%	No.	
		GENERAL
		What accounting functions are you involved in directly? (multiple answers possible)
43%	18	__ accounts payable/disbursements
50%	21	__ accounts receivable/revenues
83%	35	__ reconciliations (monthly/quarterly)
69%	29	__ general ledger
69%	29	__ fund accounting, _____ no. of funds
26%	11	__ other (specify)
		Does your unit maintain written accounting procedures?
64%	27	__ yes
36%	15	__ no
		If yes, how often do you refer to these procedures? (Out of 27 responses)
15%	4	__ daily
15%	4	__ weekly
19%	5	__ monthly
52%	14	__ very seldom

%	No.	
		When were these procedures last updated?
85%	23	__ within the past year
4%	1	__ within the past two years
11%	3	__ more than two years ago

RECONCILIATIONS

How often do you reconcile to State Controller's control accounts?

%	No.	
60%	25	__ monthly only
—	0	__ quarterly only
33%	14	__ monthly and quarterly
2%	1	__ only at year end for the previous 12 months
—	0	__ other (specify)
5%	2	__ no response

After the end of the month or quarter, how soon is the reconciliation done? (out of 40 responses)

%	No.	
—	0	__ by the 5th of the month for the preceding month/quarter
15%	6	__ between the 6th and 15th of the month for the preceding month/quarter
18%	7	__ between the 16th and 25th of the month for the preceding month/quarter
2%	1	__ between the 26th and the 30th of the month/quarter for the preceding month/quarter
25%	10	__ 31 to 40 days after the preceding month/quarter
40%	16	__ greater than 40 days after the preceding month/quarter

Are the reconciliations dated and initialed by you or someone else?

%	No.	
83%	35	__ yes
12%	5	__ no

%	No.	
		YEAR END REPORTS
		When preparing year end reports, is the process followed or activities performed
24%	10	__ substantially different from the ongoing related work during the year
43%	18	__ somewhat different from the ongoing related work during the year
26%	11	__ similar to the ongoing related work during the year
7%	3	__ no response
		How is the work for year end reports broken out in your unit?
64%	27	__ by fund
12%	5	__ by type of report
14%	6	__ other (specify)
2%	4	__ no response
		Are specific year end reports prepared or handled by more than one party?
69%	29	__ yes; explain _____
26%	11	__ no
5%	2	__ no response
		Are year end reports that are prepared by you reviewed or approved by your supervisor?
74%	31	__ yes
16%	7	__ no
9%	4	__ no response

%	No.	
		How are year end accruals estimated? (multiple answers possible)
78%	33	__ based on encumbered amounts
81%	34	__ total invoices for goods/services received
47%	20	__ based on historical accrual amounts in prior years
35%	15	__ based on a best guess of anticipated accruals
35%	15	__ other (specify)
		How soon after June 30th (for the most recently completed fiscal year) was the year end accrual worksheet completed?
14%	6	__ by July 20
33%	14	__ by July 31
24%	10	__ by August 20
21%	9	__ after August 20
7%	3	__ no response
		Would you describe preparation of the year end accrual worksheet as:
26%	11	__ complex
31%	13	__ somewhat difficult
33%	14	__ straightforward
9%	4	__ no response
		How soon after June 30th is information available to prepare the required year end reports?
—	0	__ immediately after June 30th
9%	4	__ within 10 days
35%	15	__ within 20 days
50%	21	__ after 20 days
5%	2	__ no response

%	No.	
		Would you describe preparation of the year end reports generally as:
33%	14	__ complex
40%	17	__ somewhat difficult
19%	8	__ straightforward
7%	3	__ no response

First		Second		Third		
						If you have submitted late year end reports to SCO, what would you say are the three primary reasons for the lateness (rank the top three reasons)?
12%	5	5%	2	—	—	__ difficulty in reconciling to the various accounts
9%	4	21%	9	5%	2	__ difficulty in gathering necessary data in a timely fashion (what kind of data?)_____
7%	3	2%	1	—	—	__ difficulty in gathering necessary data from field offices (what kind of data?)_____
12%	5	12%	5	7%	3	__ sheer volume of workload and reports required
—	—	7%	3	5%	2	__ the influence of expending budgeted funds
2%	1	7%	3	9%	4	__ number of year end adjustments
5%	2	5%	2	16%	7	__ other accounting priorities that occur during year end closing time
14%	6	—	—	7%	3	__ other (specify)

- Most commonly answered (whether ranked 1, 2, or 3) was "difficulty in gathering necessary data in a timely fashion", with 36%, or 15 responses.
- Most commonly ranked first was "other", with 6 responses. "Other" was generally associated with systems or CALSTARS problems.

%	No.	
		If you answered "other accounting priorities," what is the primary cause that sets aside year end reports? (out of 11 who answered "other accounting priorities)
9%	1	__ payroll
36%	4	__ paying current year bills
9%	1	__ setting up new accounts for the new fiscal year
9%	1	__ budget adjustments
36%	4	__ other (specify)
		If your agency has field offices that perform accounting functions, do all reports and reconciliations have to be submitted, reviewed, and approved by headquarters prior to release? (Out of 15 who answered)
53%	8	__ yes
46%	7	__ no
	27	__ no response
		Are there written procedures that govern the roles and responsibilities between field offices and headquarters relating to accounting and financial reporting?
28%	12	__ yes
9%	4	__ no
62%	26	__ no response
		Are there bottlenecks in the processing of year end reports?
76%	32	__ yes
7%	3	__ no
16%	7	__ no response

%	No.	
		In your opinion, what would make your participation in year end closing more efficient? (multiple answers possible)
26%	11	__ more training
28%	12	__ increased guidance or direction from the Controller's Office or the Department of Finance
50%	21	__ streamlining the process, such as reducing the number of required year end reports
52%	22	__ enhanced automation of the process
19%	8	__ other (specify)
2%	1	__ no response

TRAINING/TECHNICAL ASSISTANCE

		Would you characterize the use of SAM in the performance of your accounting duties as:
24%	10	__ always helpful
66%	28	__ sometimes helpful
9%	4	__ confusing, not helpful
		Check the courses listed below that you know are available to accounting staff.
71%	30	__ DPA Year End Course
83%	35	__ DPA State Accounting Course
81%	34	__ DOF Year End Course
64%	27	__ DOF State Fund Accounting Course
33%	14	__ DOF (CALSTARS) Reconciliation Course
52%	22	__ DOF (CALSTARS) Year End Course
4%	2	__ No response

%	No.	
		Have you attended any of the above courses within the last two years?
74%	31	__ yes
23%	10	__ no
3%	1	__ no response

Which course(s) did you attend, and how would you rate them?

	Excellent		Satisfactory		Less than Satisfactory	
__ DPA Year End Course	—	—	19%	8	7%	3
__ DPA State Accounting Course	—	—	21%	9	7%	3
__ DOF Year End Course	2%	1	26%	11	—	—
__ DOF State Fund Accounting Course	5%	2	7%	3	5%	2
__ DOF (CALSTARS) Reconciliation Course	2%	1	16%	7	2%	1
__ DOF (CALSTARS) Year End Course	9%	4	33%	14	5%	2
__ No response	16%	7				

		Do you feel there is a need for more courses to be offered in the accounting and financial management areas?
88%	37	__ yes
12%	5	__ no
		Which areas? (multiple answeres possible)
64%	27	__ general course on fiscal agencies' roles (DOF, SCO, Treasurer)
19%	8	__ year end closing process
26%	11	__ reconciliations
62%	26	__ more on how accounting ties into the budget process
21%	9	__ more accounting theory courses
36%	15	__ more general accounting (governmental) courses
14%	6	__ other (specify)

%	No.	
		For CALSTARS or other automated systems, were you involved in the initial implementation in your agency?
28%	12	__ yes
52%	22	__ no
19%	8	__ no response
		What type of formal training does your own department or unit offer in the accounting or financial management area?
54%	23	__ required to attend one of the courses offered by DPA or DOF
12%	5	__ formal training program within the department
33%	14	__ formal cross-training among jobs
24%	10	__ other (specify)
24%	10	__ no response
		When you have any questions relating to reconciliations, do you contact the same person at SCO?
28%	12	__ yes
50%	21	__ no
21%	9	__ no response
		If no, who do you contact instead?
28%	12	__ DOF, Fiscal Systems Consulting Unit
28%	12	__ other (specify)_____
43%	18	__ no response
		If you work in a CALSTARS agency, do you find the CALSTARS unit (at DOF) readily available and helpful to answer questions or for technical assistance in general? (% based on 19 responses)
31%	13	__ yes (68%)
14%	6	__ no (32%)
	23	__ no response

%	No.	
		If your agency is not on CALSTARS, do you find the unit you contact for technical assistance is readily available and helpful? (which unit _____)
24%	10	__ yes
5%	2	__ no
71%	30	__ no response
		If no, who do you contact instead?
7%	3	__ SCO
7%	3	__ DOF, Fiscal Systems Consulting Unit
2%	1	__ other (specify)
83%	35	__ no response
		Have you ever attended a writing course?
62%	26	__ yes
39%	16	__ no
		describe_____
		Have you ever attended an oral presentation course?
43%	18	__ yes
57%	24	__ no
		describe_____
		Have you ever attended any data processing courses?
76%	32	__ yes
24%	10	__ no
		describe_____

APPENDIX F

OFFICE OF THE AUDITOR GENERAL

Survey of Other States' Financial Reporting Systems

Highlights of Findings

The following is a summary of the key findings based on our survey of four states of comparable size or organizational structure. Following this summary is a matrix of comparative information and key features of these states and California and separate pages on each of the four states we contacted.

- Three of the four states interviewed employed the services of an independent accounting firm (all of which were Big Eight firms) to audit their financial report. Although two of these three states had a Legislative Auditor, they chose to enlist an outside opinion. All states surveyed emphasized the importance of an independent opinion.

- In preparing their financial report, the state of Maryland uses an earlier version of the CALSTARS system (STARS) in conjunction with a GAAP Accounting and Reporting System (GAAP ARS). The GAAP ARS, which was originally developed by Coopers & Lybrand, consolidates the STARS account balances, converts reporting from the cent to the thousand dollar, and produces information at a high level for the GAAP reports.

- The state of Illinois uses a statewide accounting system that reports to the penny. Unlike Maryland or New York, they do not have an automated method for GAAP conversion (reporting to the thousand dollar). Instead, each agency receives a "GAAP package" and is responsible for preparing their own financial statement. They are also required to develop an audit trail which the Auditor General later evaluates in its audit of that particular agency.

- State law in New York requires that the Financial Report be submitted to the Legislature 120 days after the fiscal year end (March 31). New York also enforces an administrative deadline which requires that all financial reporting information be submitted no later than July 12th. These deadlines are an incentive for both the state agencies and the Controller to complete the report in a timely manner.

- Standard & Poors stated that the GFOA Certificate of Achievement is a consideration in measuring a state's financial position. All four of the states interviewed placed great emphasis on the importance of the GFOA Certificate. Two of the states had received the certificate for more than two years, while the other two states are making a concerted effort to obtain certification.

SUMMARY OF THE FINANCIAL REPORTING PROCESS
OF OTHER STATES AND CALIFORNIA

	ILLINOIS	*MARYLAND*	*NEW YORK*	*PENNSYLVANIA*	*CALIFORNIA*
TOTAL BUDGET	$20 BIL.	$6 1/2 - 7 BIL.	$40 BIL.	$9 1/2 BIL	$36 BIL.
TOTAL POPULATION	12 MIL.	4 MIL.	17 1/2 MIL.	not available	26.6 MIL.
NUMBER OF AGENCIES	110	16-20	350	52	300
BUDGETEER	DIR. OF BUREAU OF BUDGETS	SECRETARY OF DEPT. OF BUDGETS	DIRECTOR OF BUDGETS	SECRETARY OF BUDGETS	DIRECTOR-DEPT. OF FINANCE
BUDGETEER-APPT./ELECTED	APPOINTED	APPOINTED	APPOINTED	APPOINTED	APPOINTED
CONTROLLER	STATE COMPTROLLER	STATE COMPTROLLER	STATE CONTROLLER	DEP. SECTY. COMPTROLLER OPTNS.	STATE CONTROLLER
CONTROLLER-APPT./ELECTED	ELECTED	ELECTED	ELECTED	APPOINTED	ELECTED
LEGISLATIVE AUDITOR	AUDITOR GENERAL	LEGISLATIVE AUDITOR	NONE	AUDITOR GENERAL	AUDITOR GENERAL
EXTERNAL AUDITOR	NONE	TOUCHE ROSS & CO.	PEAT, MARWICK, MITCHELL & CO.	ERNST & WHINNEY	NONE
FINANCIAL REPORT IS PRODUCED BY	GAAP PROJECT DIRECTOR AND DIRECTOR OF FISCAL RESEARCH	GENERAL ACCOUNTING. DIV. OF STATE COMPTROLLER'S OFFICE	BUREAU OF FINANCIAL RPTING	BUREAU OF FINANCIAL MGMT WITHIN COMPTROLLER OPTIONS.	STATE CONTROLLER'S OFFICE
REPORT PRODUCED (HOW OFTEN?)	ANNUALLY	ANNUALLY	ANNUALLY	ANNUALLY	ANNUALLY
FISCAL YEAR-END	JUNE	JUNE	MARCH	JUNE	JUNE
STATUTORY DEADLINES	DEC. 31-PROVIDE INFO. PACKAGE TO GENERAL ASSEMBLY	BUDGETARY REPORTS DUE TO LEGISLATURE-3RD WEEK/JAN.	FINANCIAL REPORT IS DUE TO LEG. 120 DAYS (4 MONTHS) AFTER FISCAL YEAR-END	NONE	NONE
ABSOLUTE CUT-OFF POINT FOR FINANCE RPTNG. INFORMATION	FOR GAAP INFO.-OCTOBER 31	NONE	ALL INFORMATION MUST BE RECEIVED BY JULY 12	NONE	ALL INFORMATION MUST BE RECEIVED BY AUGUST 20
PENALTY FOR MISSED DEADLINES	NONE	NONE	NONE	NONE	NONE
CAFR FOR CERTIFICATE OF ACHIEVEMENT PROGRAM	YES	YES	YES	NO	NO
RECEIVED CERTIFICATE	YES	YES	NO	NO	NO
REPORT BASED ON GAAP/LEGAL (BUDGETARY)	BOTH	BOTH	BOTH	BOTH	BOTH
REQUIRED LEVEL OF ACCURACY FOR GAAP	THOUSAND	THOUSAND	THOUSAND	THOUSAND	THOUSAND
REQUIRED LEVEL OF ACCURACY FOR LEGAL (BUDGETARY)	CENT	CENT	CENT	not available	DOLLAR

ILLINOIS

Key Figures

Total Budget	$20 bil
Total Number of State Agencies	110
Total Population	12 bil

General Structure of Financial Agencies

- Director of Bureau of Budgets — appointed by the Governor
- State Comptroller — elected
- Auditor General

Financial Reporting

Who?

- The GAAP Project Director and the Director of Fiscal Research (within the State Comptroller's office) produce a General Purpose Financial Statement and a Comprehensive Annual Financial Report.

How often?

- Produced Annually

When?

- The reports are produced in February after the fiscal year end in June.

Wny?

- For state agencies — a sense of cooperation and the feeling that they will be held accountable if they don't cooperate.
- For the comptroller — the primary incentive is the bond ratings.

ILLINOIS

Financial Reporting (cont.)

How?

- The GAAP report is presented to the nearest thousandth. Although the Comprehensive Annual Financial Report contains GAAP reporting, it is presented on a budgetary basis and to the nearest cent.

- Each state agency has an accounting division that receives a GAAP package and various budget reports from the Comptroller. The agencies are responsible to prepare their own financial statement package and round to the nearest thousandth. They are required to leave an audit trail which the Auditor General will later use in auditing that agency.

Differences from California

- There is a statute requiring submission of an information package to the General Assembly by December 21 after the fiscal year end in June. There is no statutory deadline for the General Purpose Financial Statement or the Comprehensive Annual Financial Report.

- Since 1982, Illinois has produced a Comprehensive Annual Financial Report for GFOA's Certificate of Achievement Program. They have received certificates for both 1984 and 1985.

- This year, Illinois is preparing GAAP statements for 19 or 20 individual agencies in addition to the Statewide report.

MARYLAND

Key Figures

Total Budget	$6 1/2 — 7 bil.
Total Number of State Agencies (approx. 200 independent agencies)	16 —20
Total Population	4 mil

General Structure of Financial Agencies

- Secretary of the Department of Budget & Fiscal Planning — appointed by the Governor
- State Comptroller —elected
- Legislative Auditor

Financial Reporting

Who?

- The General Accounting Division of the State Comptroller's Office produces a financial report in accordance with GAAP and a Comprehensive Annual Financial Report for the GFOA Certificate of Achievement Program.

How often?

- Produced Annually

When?

- The reports are produced by mid-December.

Why?

- For state agencies — the state agencies really don't have a motivating factor.
- For the comptroller — the motivation behind producing the report includes the benefits to management, the significant savings in the bond market, and the fact that it makes "good sense."

MARYLAND

Financial Reporting (cont.)

How?

- The official statement for GAAP purposes reports to the nearest thousandth. The budgetary based report is presented to the nearest cent.
- Maryland has a system known as the GAAP Accounting & Reporting System, that consolidates the information captured in the centralized accounting system (at the cent level) and makes the conversions necessary for GAAP reporting (at the thousandth level).

Differences from California

- Maryland has a Secretariat System which explains why they have approximately 16 to 20 significant agencies and approximately 200 independent agencies.
- The audit of the financial report is performed by an outside CPA firm. (Touche Ross & Co.)
- Maryland's Legislative Auditor is used more in the area of performance audits.
- Maryland produces a Comprehensive Annual Financial Report for GFOA's Certificate of Achievement Program. They have applied for and received the certificate since 1980.

NEW YORK

Key Figures

Total Budget	$40 bil.
Total Number of State Agencies	350
Total Population	17 1/2 mil.

General Structure of Financial Agencies

- Controller — elected
- Director of Budgets — appointed by the Governor

Financial Reporting

Who?

- The Bureau of Financial Reporting produces the Financial Report

How often?

- Produced Annually

When?

- Statutory deadline requires that the Financial Report be submitted to the Legislature 120 days after the end of the fiscal year. (Fiscal year end is March 31st.)
- All information pertaining to the financial report must be received from state agencies no later than July 12th.

Why?

- For state agencies — the motivation behind assisting in the preparation of the report is the legal statute and the fact that it assists them in preparing their financial plans.
- For the controller — the motivation behind producing the report includes several factors: bond ratings, the legal statute and the benefit to the state.

NEW YORK

Financial Reporting (cont.)

How?

- The financial report is produced on both a legal and GAAP basis.
- The financial report generally reports to the nearest thousandth.
- In the financial reporting process, almost everything is automated. There is an on-line central accounting system which captures the majority of transactions. Any information not processed through the system must be reported via hard copy.

Differences from California

- Statutory deadline requiring submission of financial report to the Legislature 120 days after fiscal year end.
- On-line centralized accounting system
- Use of an outside CPA firm to audit the financial report and assure compliance with GAAP. (Peat, Marwick, Mitchell & Co.)
- New York does not have a Legislative Auditor (Auditor General).
- New York publishes a Comprehensive Annual Financial Report for the GFOA Certificate of Achievement Program.

PENNSYLVANIA

Key Figures

Total Budget	$9 1/2 bil.
Total Number of State Agencies	52
Total Population	

General Structure of Financial Agencies

- Secretary of Budgets — appointed by the Governor
- Deputy Secretary for Comptroller Operations — also appointed by the Governor
- Auditor General — the State's Legislative Auditor

Financial Reporting

Who?

- The Bureau of Financial Management within Comptroller Operations produces the General Purpose Financial Statement (in accordance with GAAP) along with a legal (budgetary) based statement.

How often?

- Produced Annually

When?

- The General Purpose Financial Statement (GPFS) is issued by Dec. 31 following the June 30 year end. The budgetary statement is issued as close to June 30 as possible.

Why?

- For state agencies — the state agencies are not really involved in preparation of the GPFS.
- For comptroller operations — the motivation behind producing the report is basically to prove that Pennsylvania is financially sound.

PENNSYLVANIA

Financial Reporting (cont.)

How?

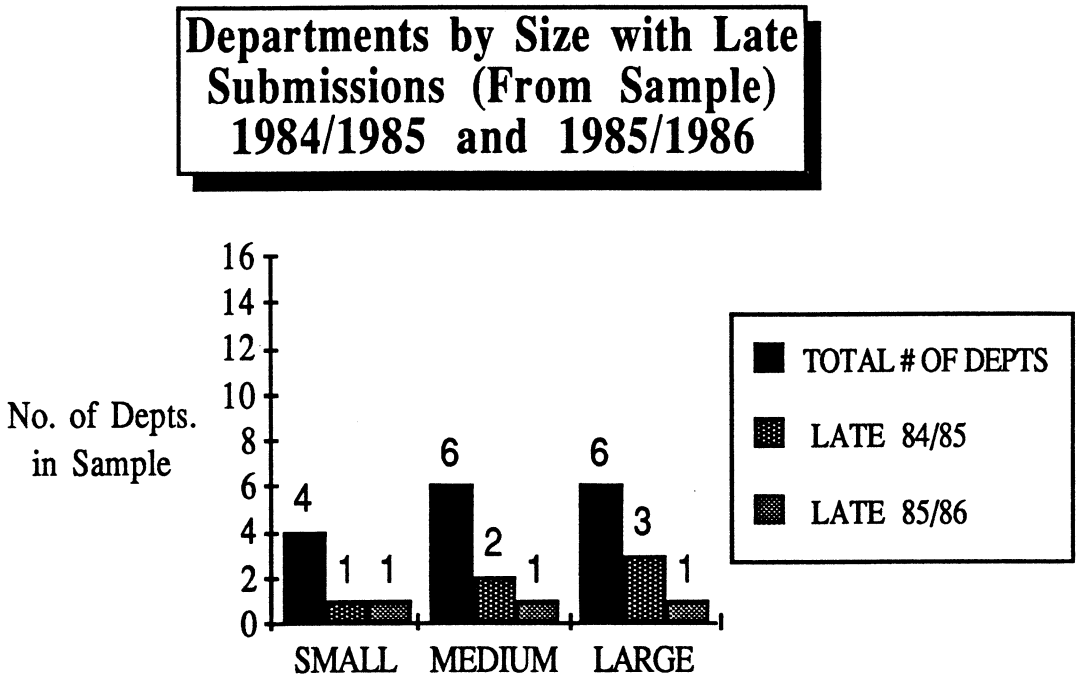
- The financial report generally reports to the nearest thousandth.
- In the financial reporting process, most of the information is captured in a central integrated accounting system which is primarily an on-line system. There is, however, a small amount of batch processing required.
- The central accounting system captures information to the nearest cent and manual adjustments are made to round to the nearest thousandth for GAAP reporting. They download some information from the central system to a subsidiary computer that makes some of the necessary adjustments.

Differences from California

- A centralized accounting system that is primarily on-line.
- The audit of the General Purpose Financial Statements is conducted by the Auditor General and an outside CPA firm. (Ernst & Whinney).
- Each of the commonwealth agencies is placed, on the basis of its particular function, in one of seven groups. Each of these groups is supported by one of the seven controller offices within Comptroller Operations.

APPENDIX G

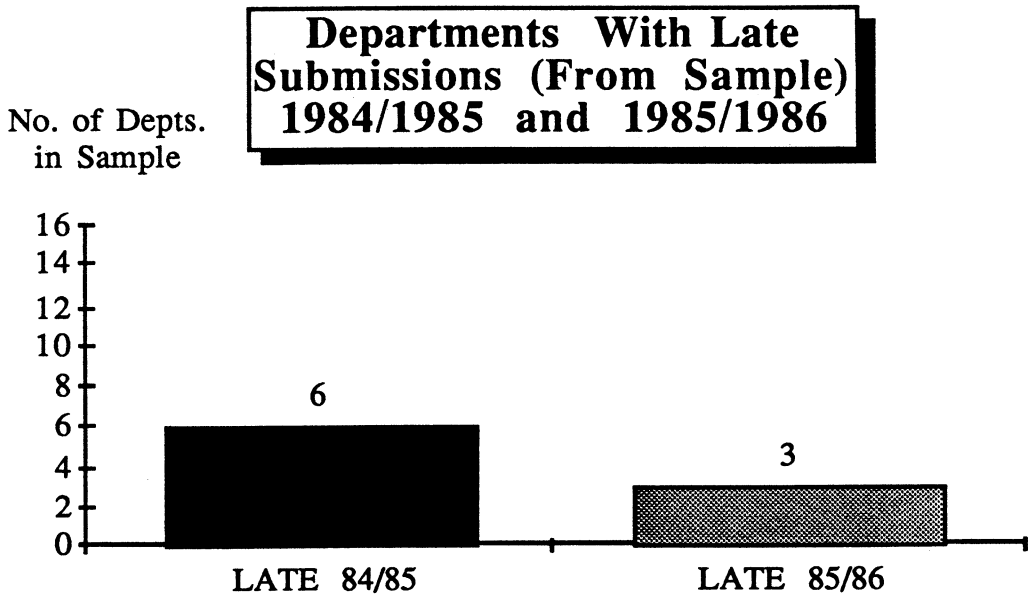
Exhibit I



Department size is defined as estimated 1985-86 expenditures as displayed in the 1986-87 Governor's Budget. Late is defined as an agency submitting at least one year end report after August 31st.

APPENDIX G

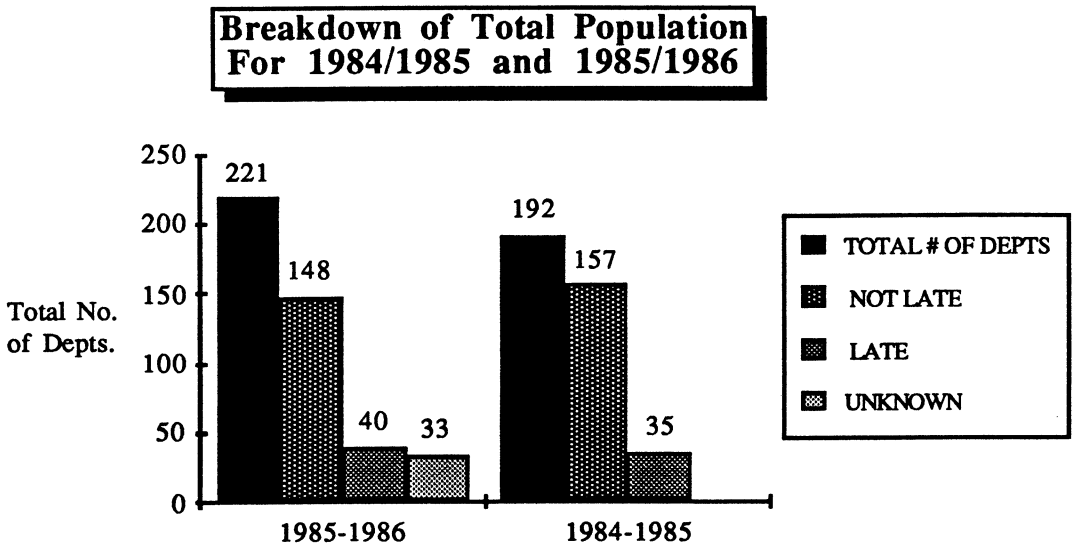
Exhibit II



This graph illustrates the number of departments in the sample which submitted late year end reports (after August 31st) in 1984/85 and 1985/86.

APPENDIX G

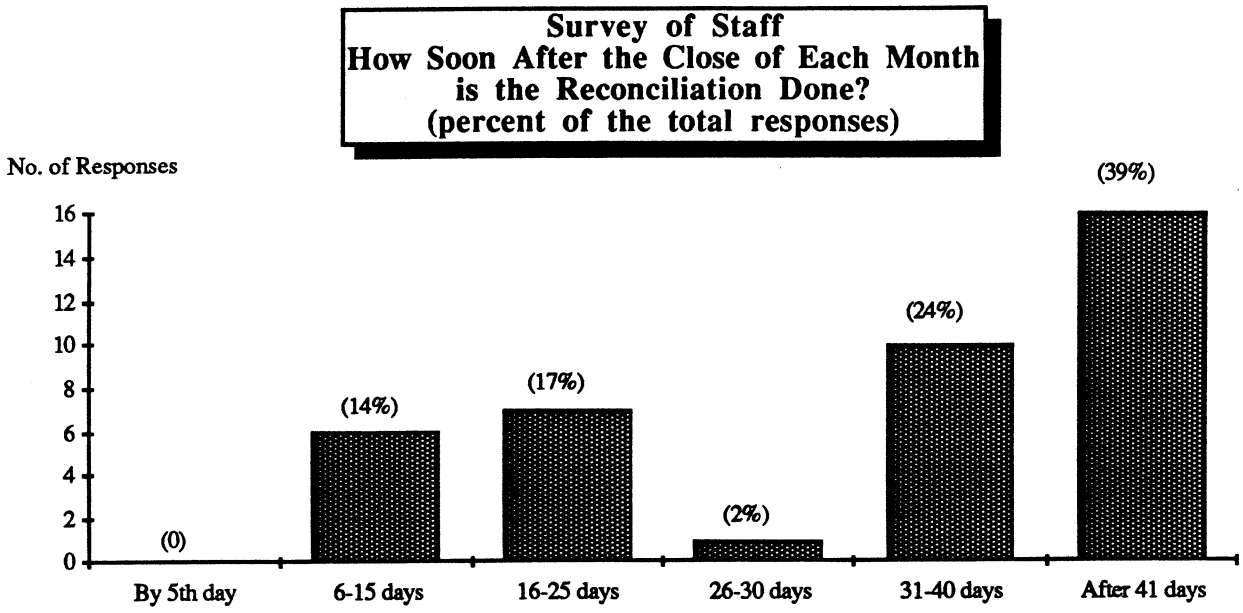
Exhibit III



This graph illustrates how many departments from the total population submitted reports on time and late. In addition, an unknown category was included in 1985-86 for those departments whose year end report status was unknown. For both these fiscal years, 18% of the agencies submitted year end statements after August 31st. 1985-86 had more agencies with year-end report activity over the prior year.

APPENDIX G

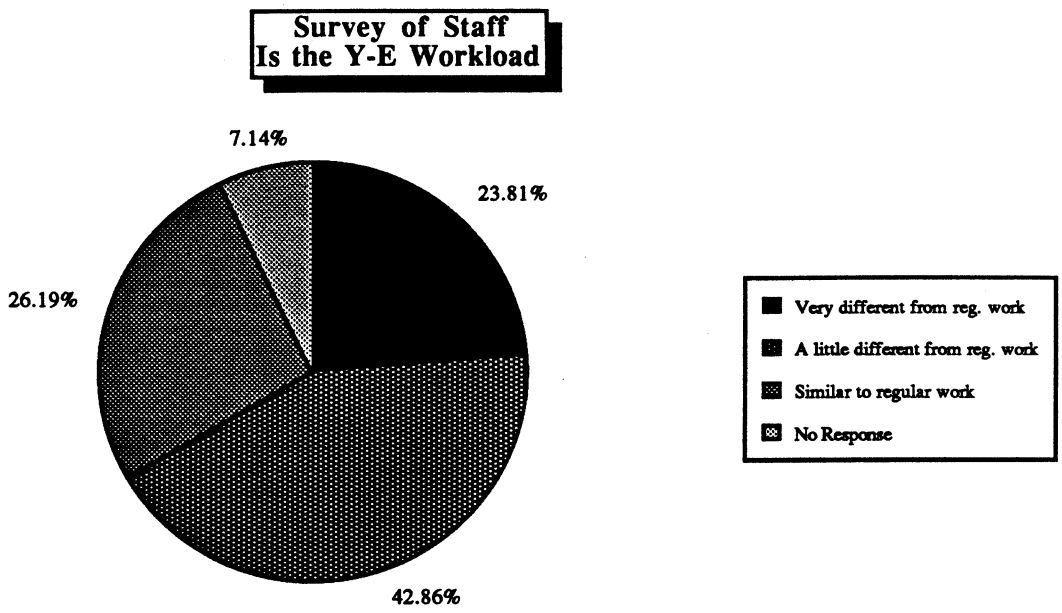
Exhibit IV



This graph illustrates the timeliness of month-end reconciliations, according to those surveyed. On average per month, a majority of the total responses (39%) complete reconciliation after 41 days from the end of the previous month.

APPENDIX G

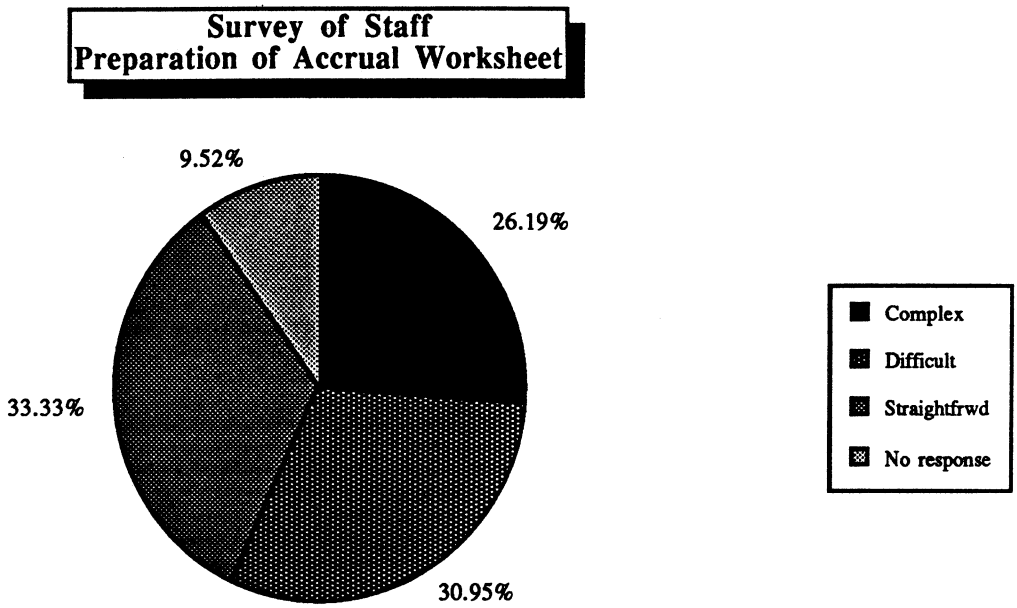
Exhibit V



This chart illustrates whether the staff surveyed believe that the year-end workload is similar to the regular workload. 67% of those surveyed believed that the year-end workload was different from the regular work during the year.

APPENDIX G

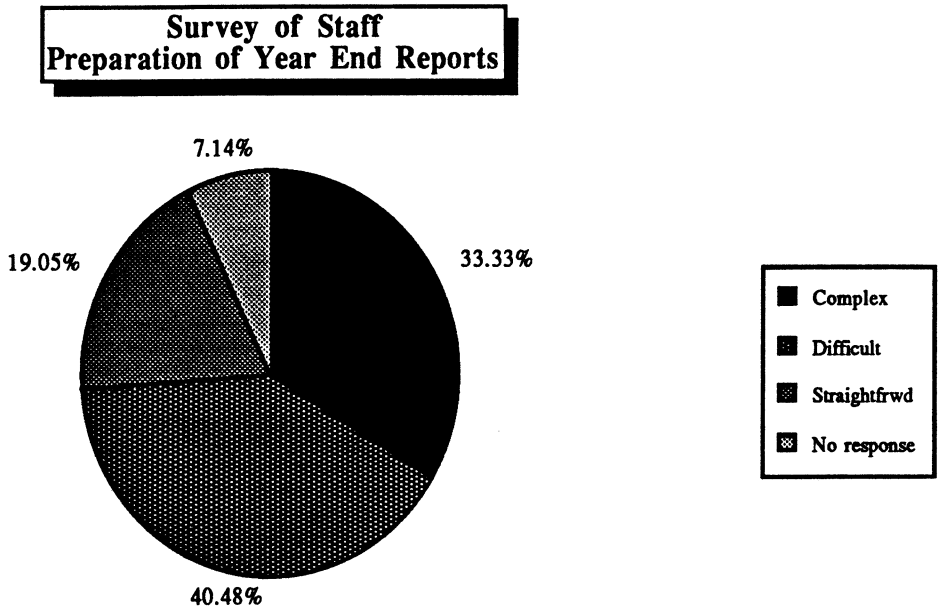
Exhibit VI



This chart illustrates how the staff perceives the preparation of the accrual worksheet. 57% of those surveyed believed the preparation of the accrual worksheet to be difficult or complex. One-third of the respondents believed the accrual worksheet is straightforward to prepare.

APPENDIX G

Exhibit VII

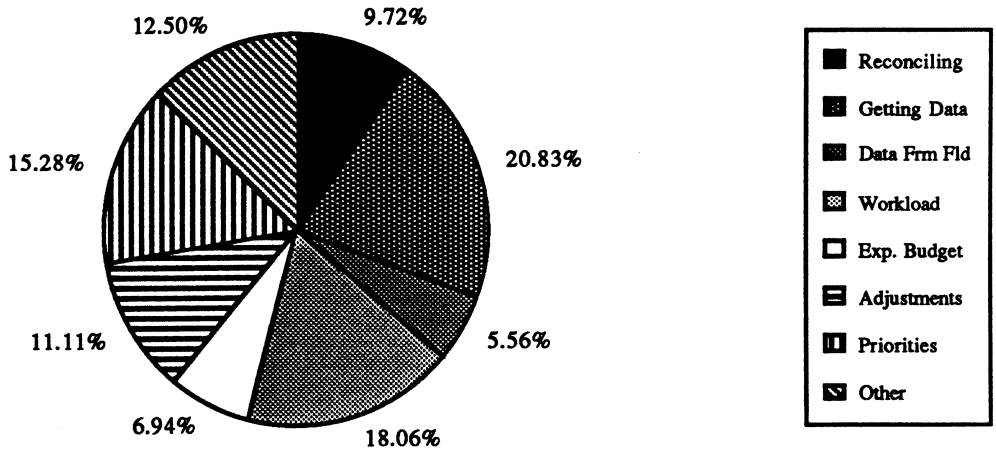


This chart illustrates how the staff perceives the year-end report preparation. One-third of the respondents described the preparation of year-end reports as being complex in nature, and more than 40% believed the process to be somewhat difficult. The magnitude of this response clearly suggests staff is not fully comfortable performing the tasks accociated with the year-end process.

APPENDIX G

Exhibit VIII

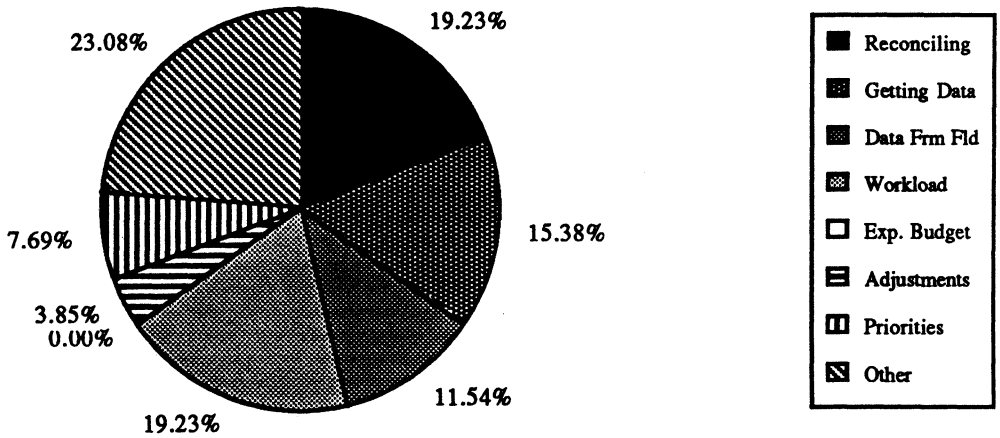
Survey of Staff
Why Are Reports Late?
Most Commonly Ranked Responses (ranked 1,2, or 3)



This chart illustrates the reasons given by staff as to what contributes to late year end reports. Respondents were given a choice of ranking a possible answer as either first, second or third in terms of a reason for late reports. Although there was no dominant response, retrieving data from within the department or from other agencies was rated as most common (20.83%). Sheer volume of year-end workload and other priorities followed as the next most common barriers to timely year-end report preparation. This reveals the multiple factors which may impede submitting reports on time.

APPENDIX G

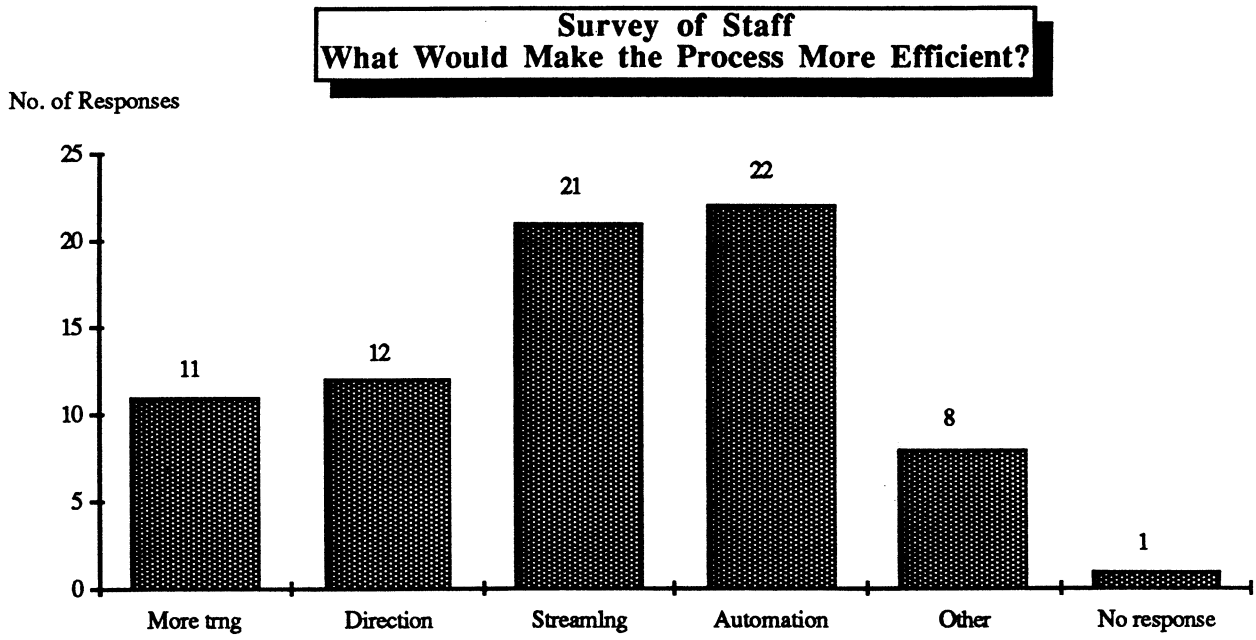
Exhibit IX



This chart illustrates the most common reason (that is, the answer most commonly ranked first by staff) that contributes to late year-end reports. "Other" was the most commonly answered as the primary reason, though not by a clear margin. A review of surveys indicated that "other" most generally refered to system/CALSTARS problems at year-end time. Not reconciling in a timely fashion and sheer volume of year-end workload were the next reasons most often ranked as the primary reason.

APPENDIX G

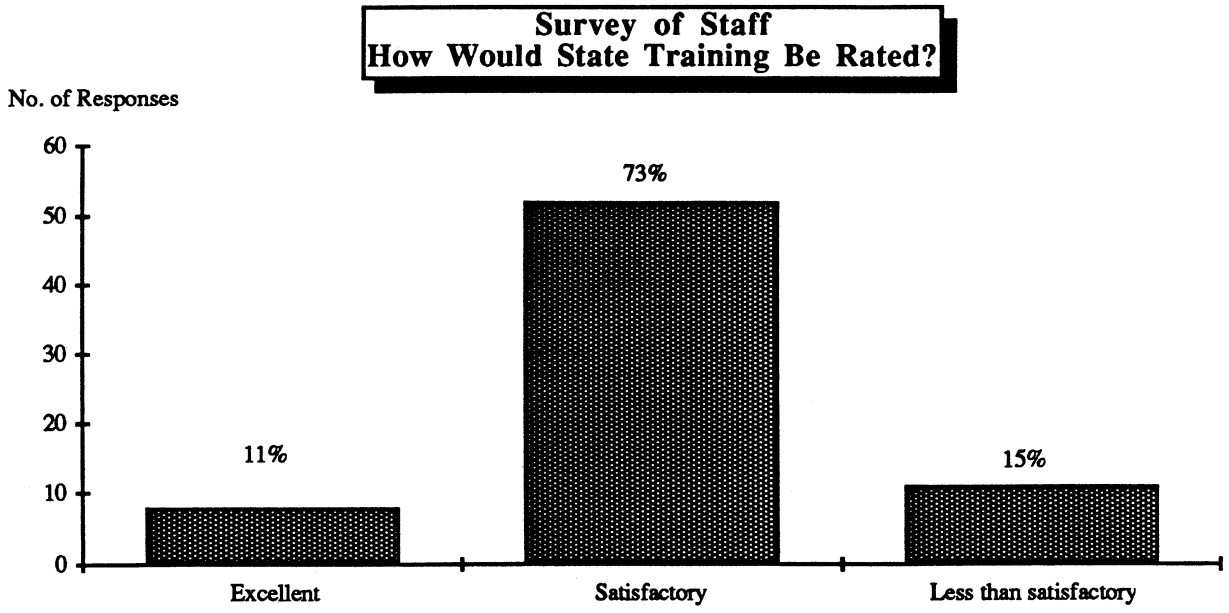
Exhibit XI



This graph illustrates staff responses as to what would make their participation in the process efficienct. Enhanced automation and streamlining of the process (e.g., reducing the number of required year end reports) received the highest responses from agency staff.

APPENDIX G

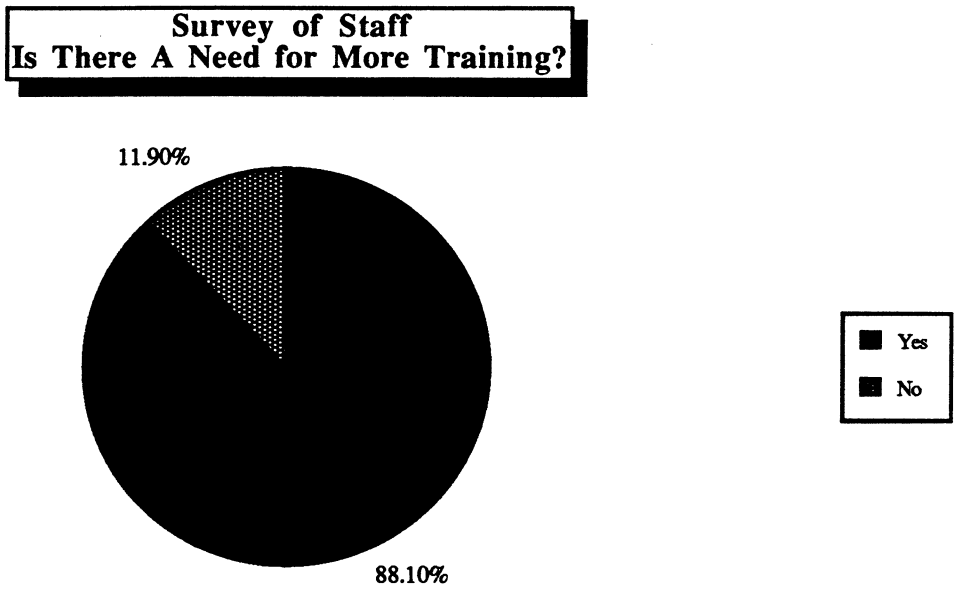
Exhibit XII



This graph illustrates staff's perception of the level of State training that they receive. Seventy-three percent rated the training as satisfactory, only 11% believed the training to be excellent, and 15% rated the training as less than satisfactory.

APPENDIX G

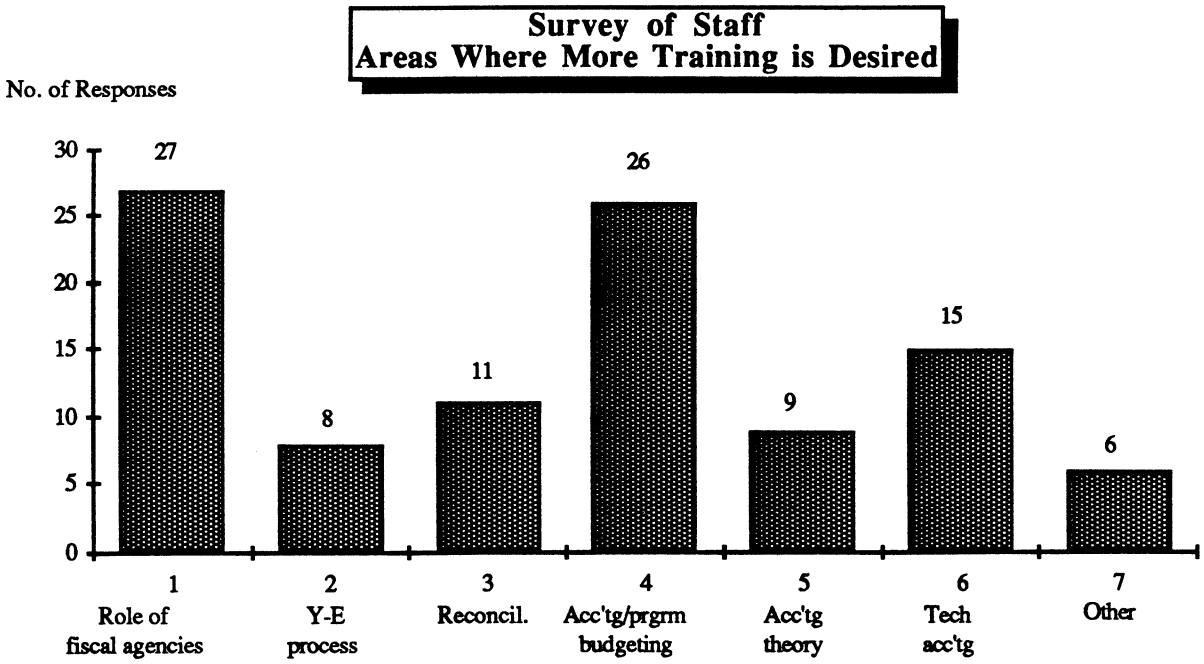
Exhibit XIII



This chart illustrates staff's signficant desire for additional or enhanced training.

APPENDIX G

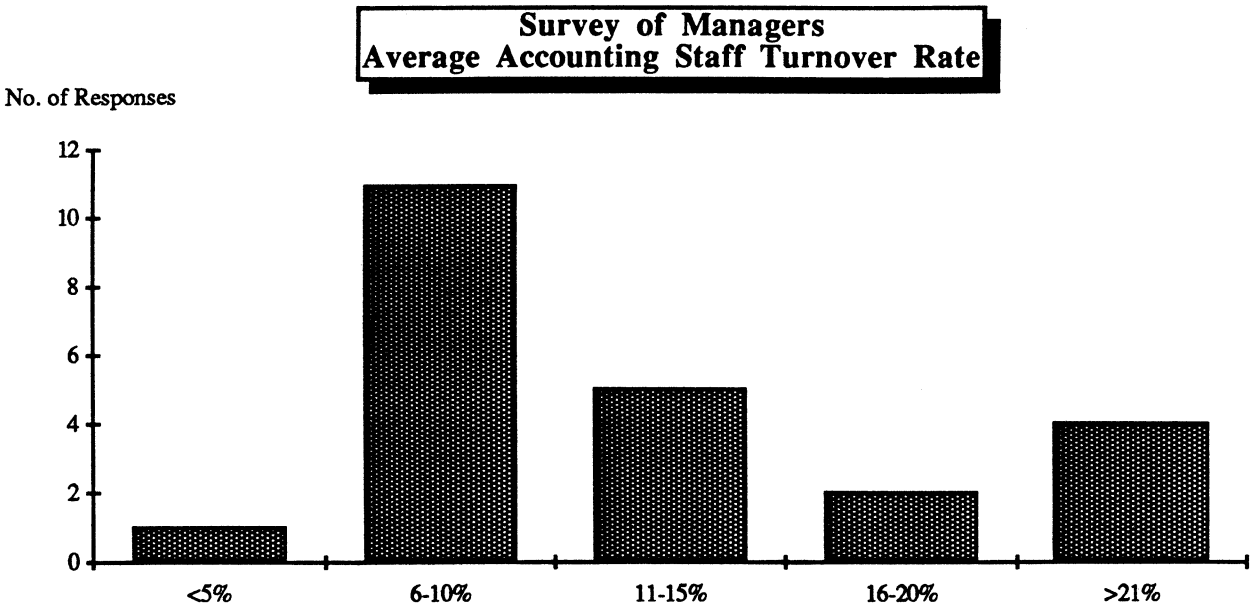
Exhibit XIV



This graph illustrates those areas in which staff perceive additional training is required. The role of fiscal agencies and how accounting relates to program budgeting were rated by staff as the two biggest areas of desired training.

APPENDIX G

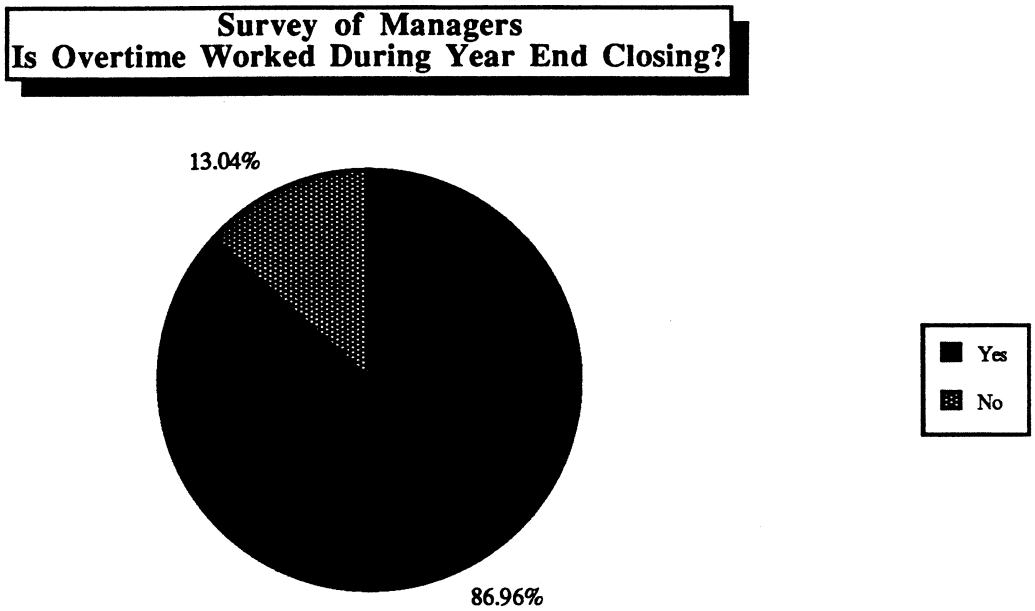
Exhibit XV



This graph illustrates the average accounting staff turnover in accounting departments.

APPENDIX G

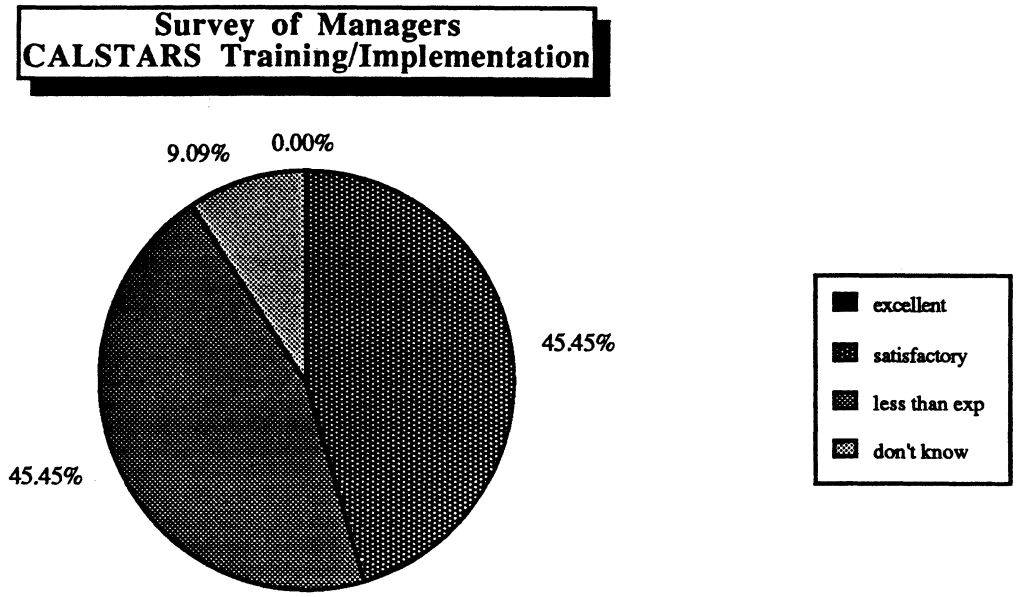
Exhibit XVI



This chart illustrates that there is a peak workload problem at year-end to prepare reports. This would confirm the findings in Exhibits VIII and IX in this appendix which indicate that sheer volume of year-end workload contributes to late reports.

APPENDIX G

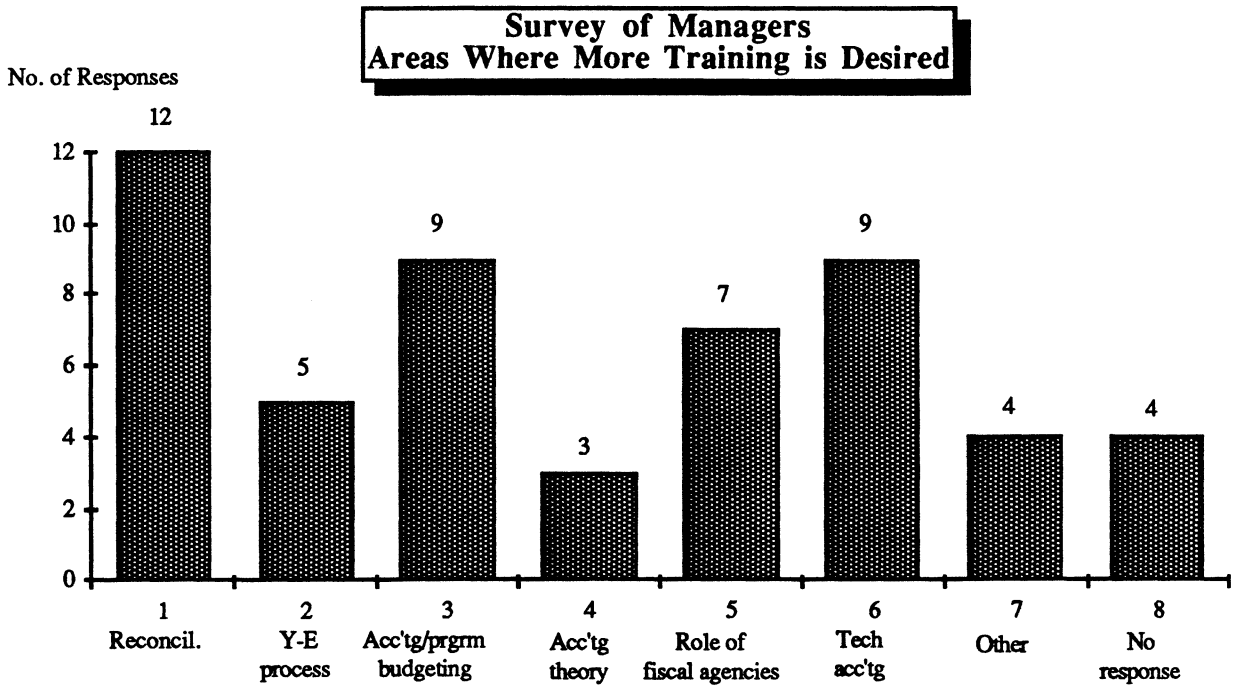
Exhibit XVII



This chart illustrates how the surveyed managers rated the CALSTARS training received by the staff. A significant number of respondents (45.45%) ranked their training either satisfactory or less than expected. Only 11 managers responded to this question, however. Of those who responded "less than expected", 66% indicated that possible causes for this were that DOF staff were unfamiliar with CALSTARS, and 50% said that implementation planning was unsatisfactory.

APPENDIX G

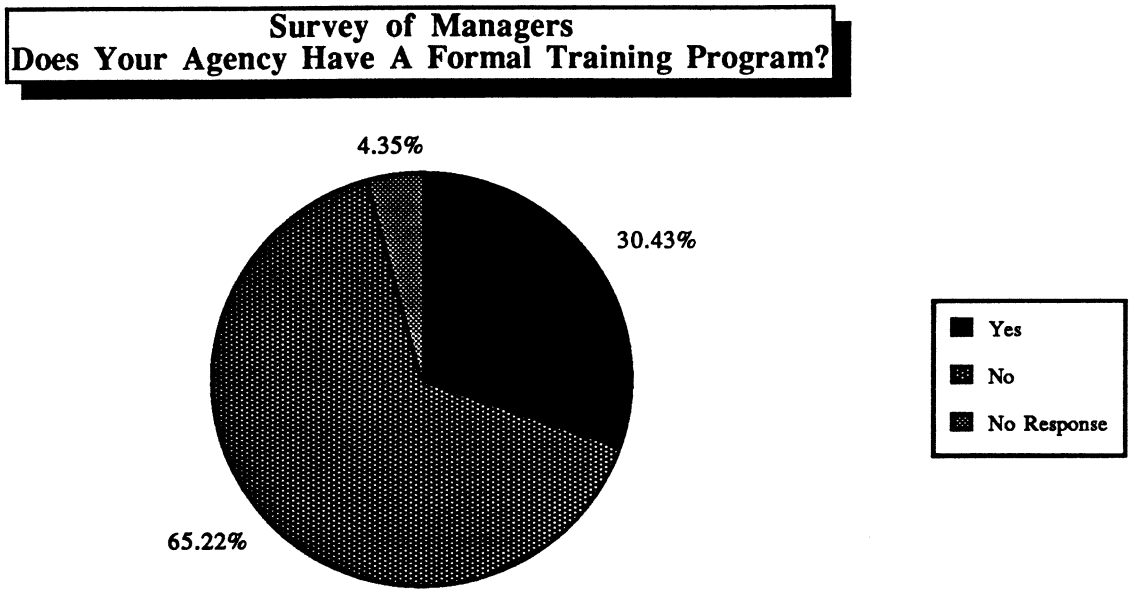
Exhibit XVIII



This graph describes those areas in which managers perceive additional training is needed for their staff. The areas of reconciliations, governmental accounting, and accounting as it relates to program budgeting were the most commonly answered.

APPENDIX G

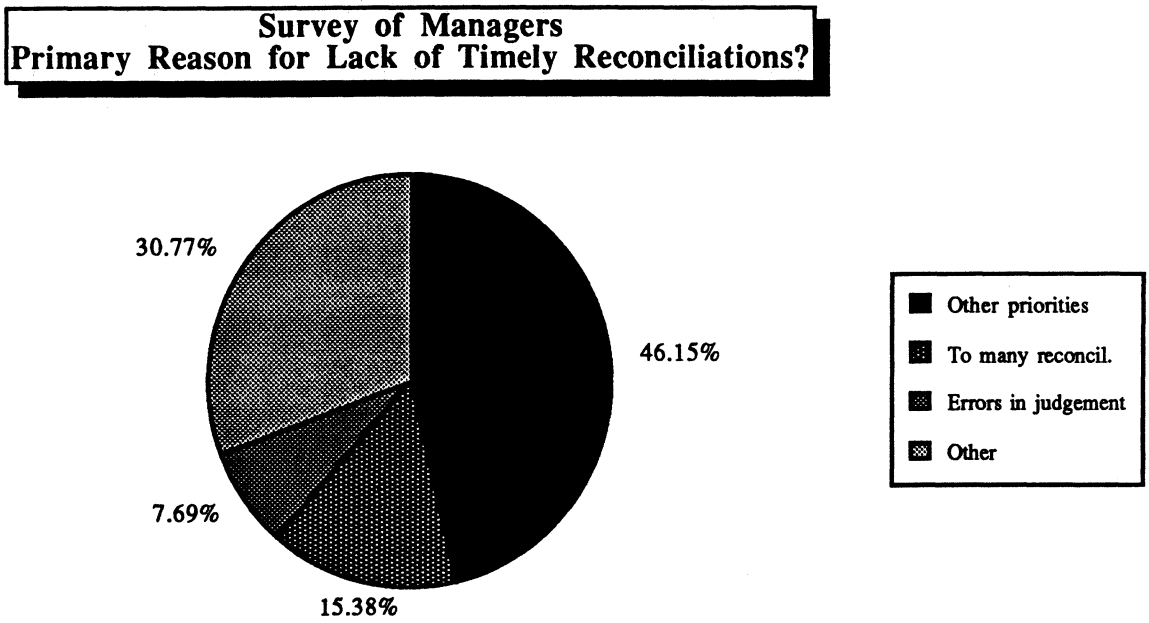
Exhibit XIX



This chart illustrates that about two-thirds of the managers said their own agency does not offer its own internal training program. This would highlight the reliance of training by DOF or DPA, particularly when 88% of staff indicated their desire for enhanced training. This would also suggest that although managers also desire enhanced training, departments are not offering their own training, and perhaps feel that training is more appropriately the responsibility of other agencies.

APPENDIX G

Exhibit XX

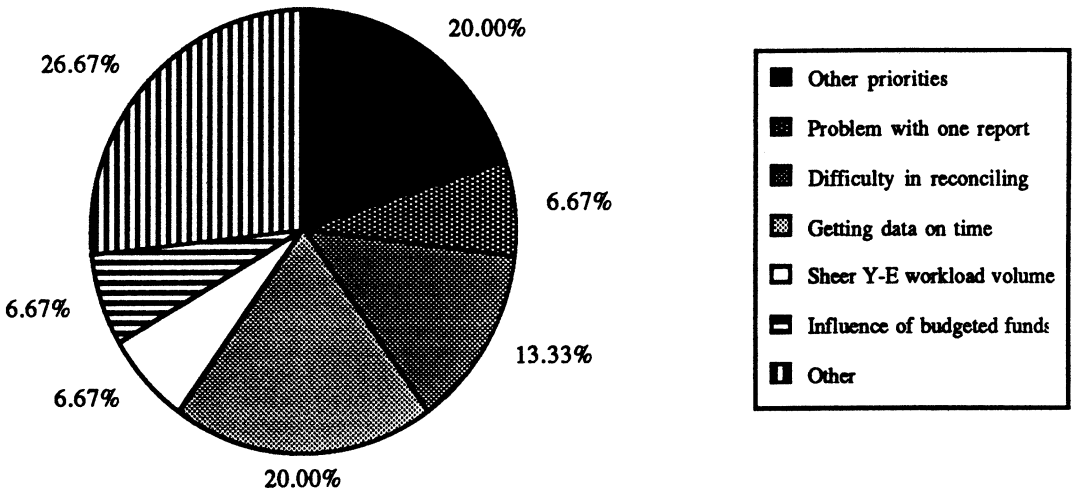


This chart suggest that, according to those who responded, timely reconciliations are not as important relative to other accounting priorities.

APPENDIX G

Exhibit XXI

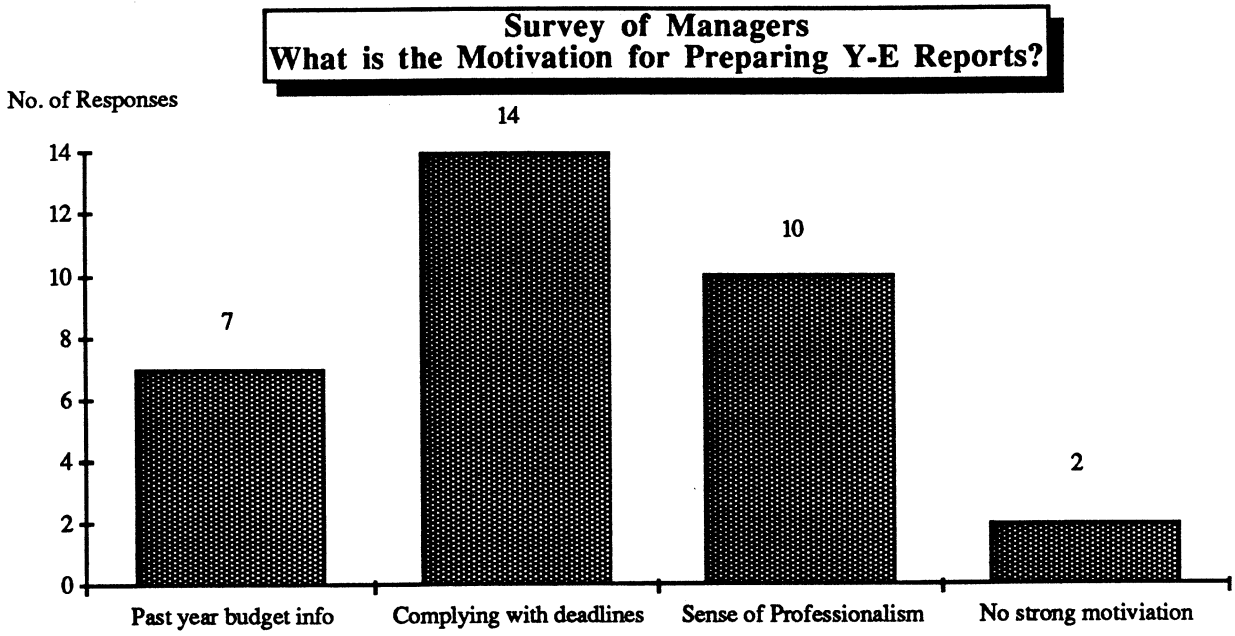
Survey of Managers
What Is the Primary Reason for Late Y-E Reports?



Although again there is no dominant answer, managers believe that "other" reasons contribute to late year end reports. Other generally referred to CALSTARS/system problems. Other priorities and gathering data from within the agency or other outside departments were cited as the next two most common reasons for late reports.

APPENDIX G

Exhibit XXII

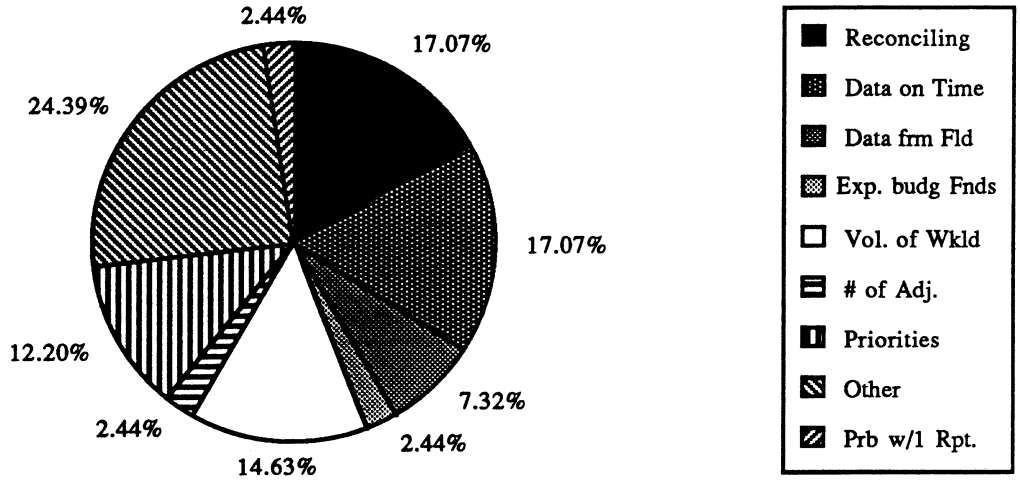


This graph describes that managers place some importance on meeting the year-end report deadlines in a timely fashion.

APPENDIX G

Exhibit XXIII

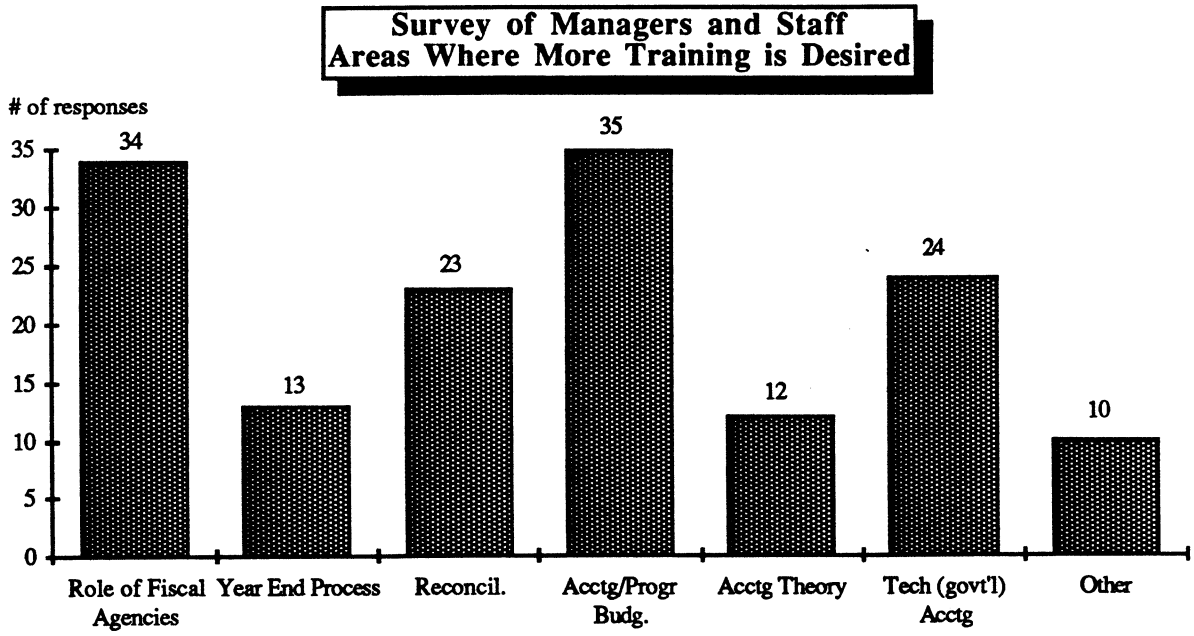
Survey of Staff and Managers
What Is The Primary Reason for Late Y-E Reports?



This shows that the combined responses of managers and staff surveyed indicate that "other" reasons is the primary reason for late year-end reports. Not reconciling timely and not obtaining data from other agenices or within the department were tied as the next most common reasons for late reports.

APPENDIX G

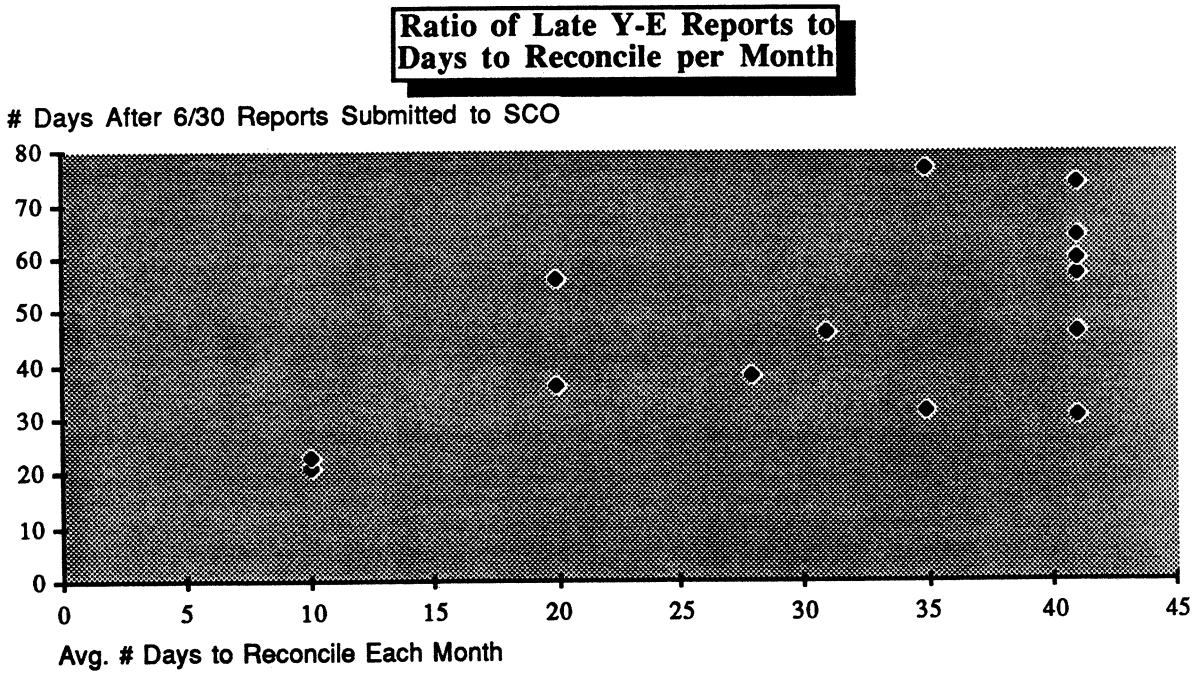
Exhibit XXIV



This bar chart shows the combined responses of managers and staff as to what areas of training are desired. Accounting as it relates to program budgeting and the role of the fiscal agencies were cited as the two main areas where training is desired. Training in technical (governmental) accounting and reconciliation training were the next most commonly answered.

APPENDIX G

Exhibit XXV

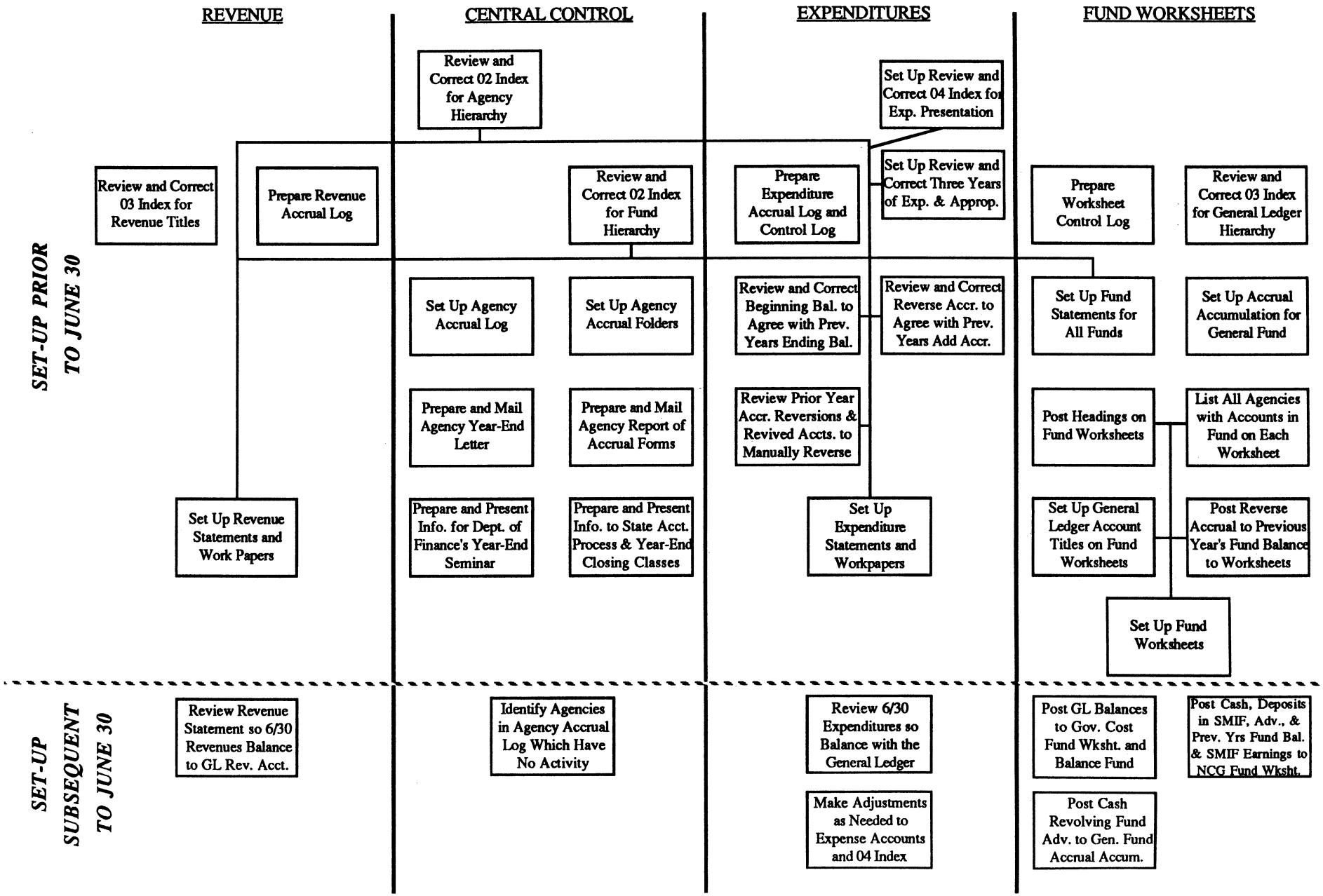


This chart suggests, for the sample of agencies reviewed and consolidating of data for review purposes, that there is an indication of a correlation between later monthly reconciliations and later submission of year-end reports.

APPENDIX H

STATE CONTROLLER'S OFFICE

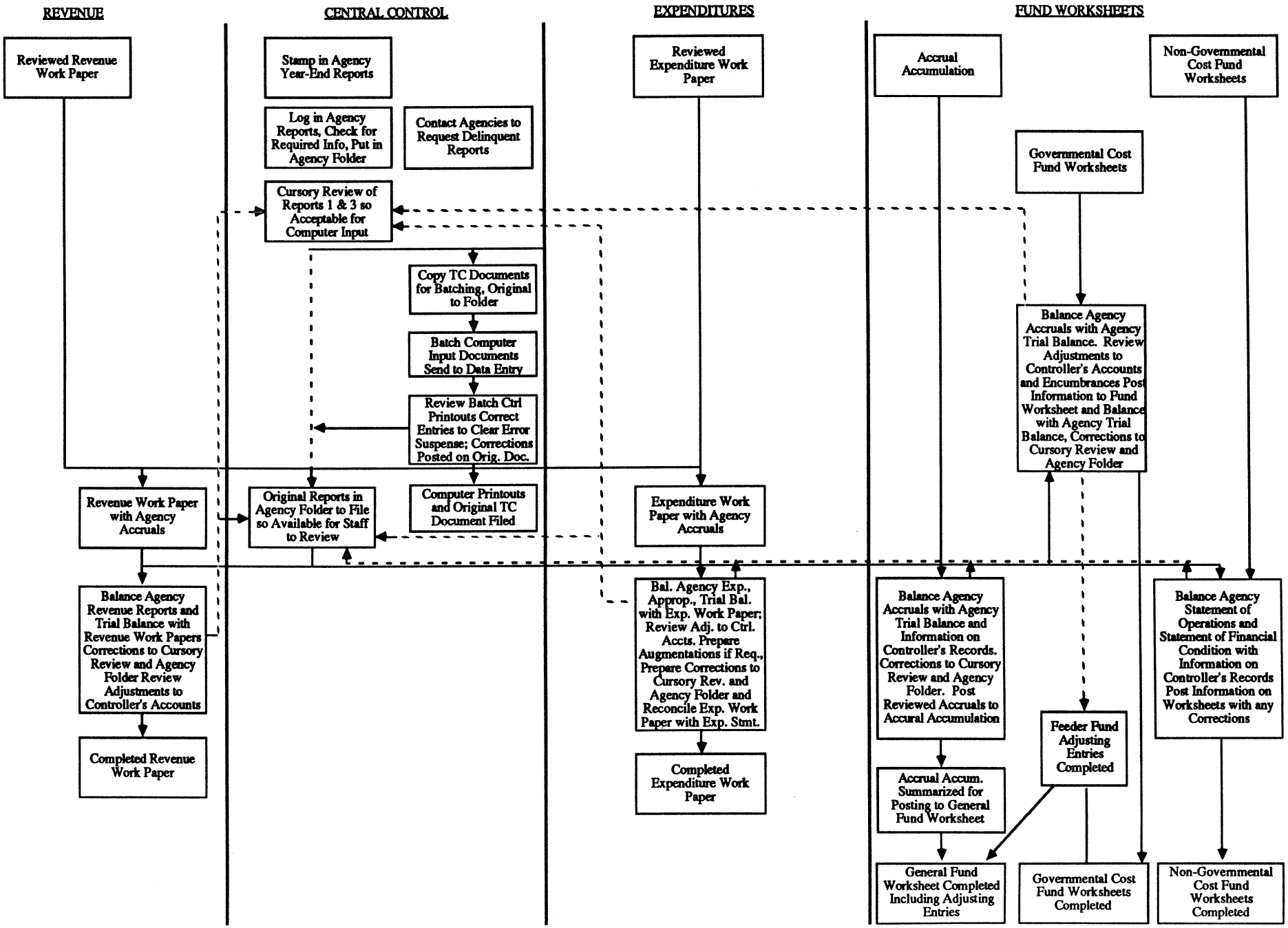
ANNUAL REPORT WORKFLOW SET-UP



APPENDIX H

STATE CONTROLLER'S OFFICE

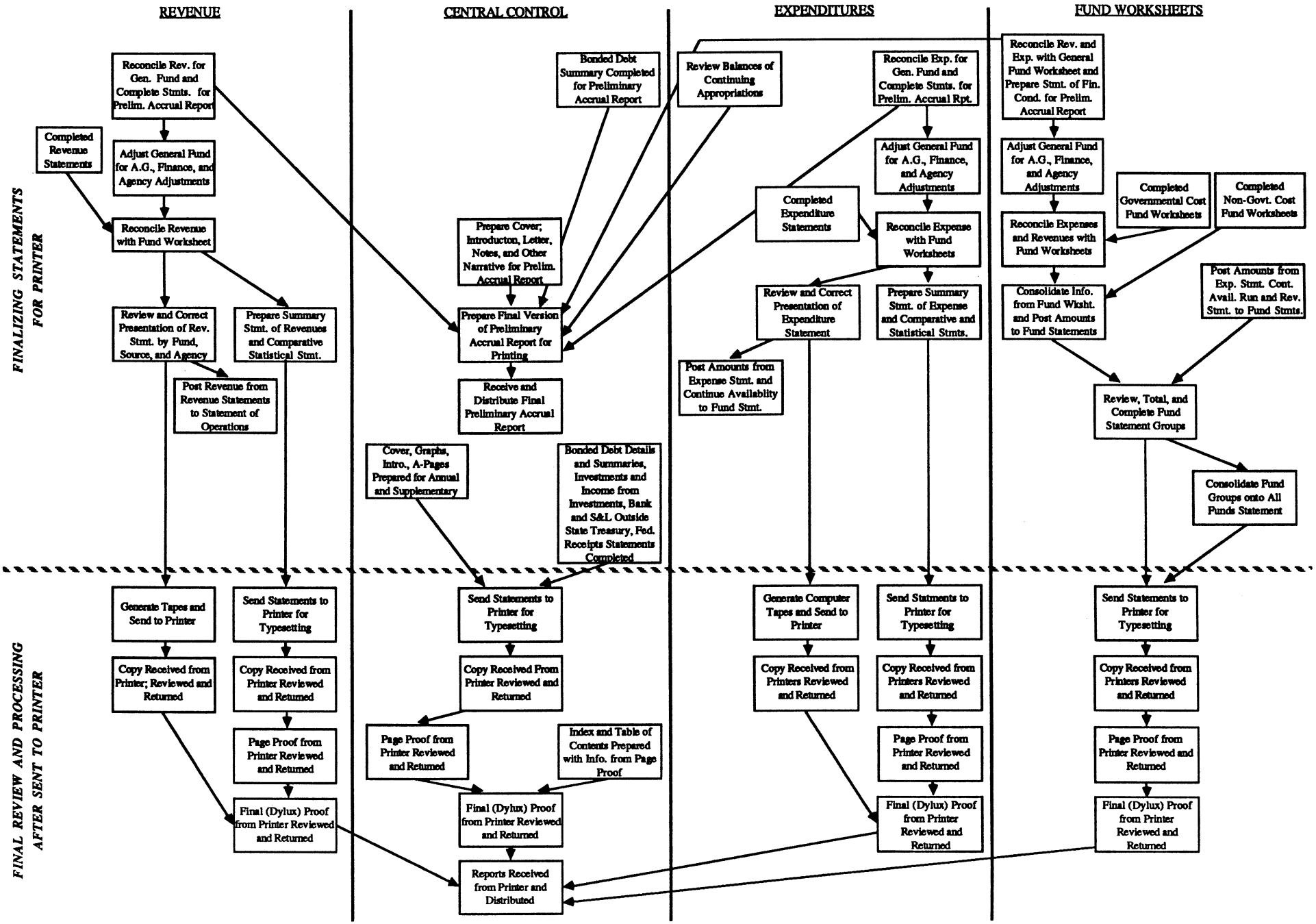
PROCESSING AGENCY REPORTS



APPENDIX H

STATE CONTROLLER'S OFFICE

FINAL PREPARATION OF REPORT



APPENDIX I

Plan for Automating the State of California Annual Report

1984-85 F. Y. -- Publish Automated Revenue Statements for the 1983-84 F. Y. Report.

1985-86 F. Y. -- Publish Automated Expenditure and Federal Receipts Statements for the 1984-85 F. Y. Report.

1986-87 F. Y. -- Have final Program Changes made to the Automated Expenditure Statements for the 1985-86 F. Y. Report.

Set-up Statements on Personal Computer in order to send print-ready copy to the printer for the 1986-87 F. Y. Statements.

1987-88 F. Y. -- Publish 1986-87 F. Y. Report by sending print-ready copy to the Printer except the Bonded Debt Detail Statement. Work with programming in order to set-up automated statements of operations and financial condition for the 1987-88 F. Y. Report.

1988-89 F. Y. -- Prepare fully automated Statements of Operations and Financial Condition which will be prepared print-ready for the printer for the 1987-88 F. Y. Report. Set-up Bonded Debt Detail Statement so it will be prepared print-ready for the State Printer for the 1988-89 F. Y. Report.

1989-90 F. Y. -- Prepare all reports in automated fashion and send all statements to the State Printer in a print-ready format for the 1988-89 F. Y. Report.

SUMMARY OF SAM RELATED ROLES/RESPONSIBILITIES

SAM SECTION/ITEM	DOF	AUD GEN	SCO	AGENCIES	GAP/AMBIGUITY
7150- Uniform acctg system for state devised in Gov't code 13300 and SAM 7100-19999.	√				SAM 7000-7990 did not specifically identify an agency with overall responsibility for technical assistance/trng of agencies in acctg/fin rptg system.
Accounting manuals for proprietary/fidicuary funds prepared by individ agencies, on approval by DOF Fiscal Systems Consult Unit (FSCU).	FSCU			√	
7150- Uniform Codes Manual maintained by FSCU.	FSCU				
7240- Auditor General to examine financial records of all state agencies. Issue annually a report on general purpose fin stmnts in SCO annual report. Aud Gen to rely to the extent possible on audits performed by other parties.		√			
7240- DOF responsible for coord and providing technical assistance for internal audits of agencies. All audited activities by Aud Gen, SCO, internal auditors, private auditors, etc. are to be coordinated.	√				No unit within DOF specified, nor is there a lead coordinating agency identified.
7260- Agencies should coordinate with and gain apprvl from FSCU prior to the implementation of any accounting system changes.	FSCU				Role of CALSTARS Unit not mentiond No mention of CALSTARS training or technical assistance responsibility.

SUMMARY OF SAM RELATED ROLES/RESPONSIBILITIES

SAM SECTION/ITEM	DOF	AUD GEN	SCO	AGENCIES	GAP/AMBIGUITY
7262- Any dept using CALSTARS, new acctg system, or redesigns existing system must have monthly reconciliation of approp balances with SCO feature, and meet other sys requirements.				√	No mention of quarterly report capability.
7370- Agencies mostly responsible for develop & carrying out a budget. Budget control and acctg resp upon agency acctg personnel. Reliance upon them to submit reports to SCO and to DOF, and meeting regs in general.				√	No mention of which agency/unit to contact for technical ass't/guidance in order to meet this responsibility, for budget and accounting.
7390- Auditor General makes indep audits for Legis. Also examines financial stmts prepared by control and operating agencies to form a fiscal opinion.		√			
7400- Fund classification structure changed to more closely conform with GAAP, as of 7/1/81. This structure is in UCM and Manual of Funds issued by DOF.	√				Year end reports still essentially done on legal basis.
This change affects agencies year end report requirements.				√	
7460- Acct groups for fixed assets and general long term debt have been added to conform to GAAP. This requires acctg & reporting changes for agencies (as of 5/85).				√	

SUMMARY OF SAM RELATED ROLES/RESPONSIBILITIES

SAM SECTION/ITEM	DOF	AUD GEN	SCO	AGENCIES	GAP/AMBIGUITY
7590- New funds. Gov't code 13305 authorizes DOF with concurrence of SCO to establish new funds. Agencies submit written requests to DOF.	FSCU		√		
7900- Responsibility for reconciliations is with the agencies, this aids in data quality and year end processing.				√	No timeframe stated to reconcile monthly.
7904- Instructions for year end reports and reconciliations for depts using CALSTARS are in the CALSTARS procedures manual.	√				CALSTARS not mentioned as maintaining this manual.
7950- SAM offers guidelines to aid agencies in meeting their financial reporting deadlines. Agencies who anticipate problems meeting deadlines should contact DOF Financial Performance & Accountability Unit.	√				Role of FSCU and SCO not mentioned here.
SCO transmits documents to agencies needed for year end closing, as early as possible in July.			√		
Agencies to instruct their field offices to submit their information promptly (June 30).				√	
7951- Reports. Quarterly reconciliation and other reports are required. Quarterly reports submitted upon request to DOF.				√	

SUMMARY OF SAM RELATED ROLES/RESPONSIBILITIES

SAM SECTION/ITEM	DOF	AUD GEN	SCO	AGENCIES	GAP/AMBIGUITY
7951 (con't) This section lists the SAM sections which relate to the various year end repts. This section details reports required and who will receive them.				√	
7990- Lays out in summary form the calendar of reports and actions, agency reporting requirements and receiving party.				√	
10581- Accounting entries for accrual, closing and reversal illustrated here.				√	
Mgmt Memo 86-10- those agencies that can not meet their reporting deadlines should contact Richard Cutting at DOF by 8/15/86. Those agencies have until 9/15/86 to submit their reports, with approval from Cutting. Staff from DOF and SCO will be monitoring report submission dates.	√				No unit within DOF specifically mentioned that will be monitoring.
Mgmt. Memo 86-6: Mentions that Chapter 805, Statutes of 1981 authorizes SCO to withhold funds from agencies not submitting financial reports by due dates, if 20 days past deadline.			√		
This Memo also provides a detailed checklist of actions for agencies to follow when preparing their year end statements.				√	Three different agencies cited to contact if year end problems arise,. FSCU, Perf. Acctblty Unit, and SCO.

SUMMARY OF SAM RELATED ROLES/RESPONSIBILITIES

SAM SECTION/ITEM	DOF	AUD GEN	SCO	AGENCIES	GAP/AMBIGUITY
Mgmt Memo 85-11. Dept. execs responsible for	FSCU			√	
accuracy & timeliness of year end reports.					
Questions regarding year end reports or					Same three different parties cited as
accounting policies, contact FSCU.					contacts.
If problems completing required statements	√		√		
contact DOF Performance Accountablity unit.					
If problems completing required statmnts					
on time, contact SCO.					

STATUS OF RECOMMENDATIONS FROM DOF "REVIEW OF THE STAFFING OF THE STATE ACCOUNTING OFFICES"

RECOMMENDATION	STATUS (per DOF)
The State should increase its recruitment efforts to hire more entry-level professional accountants, reversing the trend of the past several years. • Complete a study of entry-level professional accounting classification • Present findings/recommendations to Accounting Advisory Group (AAG) • Establish workplan to implement any necessary changes	There is no progress on this issue to date. Contacts on DOF, SPB, and DPA did not disclose any information to refute this status.
SPB, DPA, and DOF should study the concept of making the Accounting Officer classification a "Deep Class" (A-C) like Staff Services Analyst classification. • Complete allocation standards review and class consolidation study • Present findings/recommendations to AAG • Propose establishment of agreed-upon deep classes	Instead of making the Accounting Officer a "deep class," two new series were created. These are the Accounting Analyst and the Associate Accounting Analyst. The Accounting Analyst has A, B, and C steps.
SPB should consider reducing the number of accounting classifications by consolidating the duplicative classes. • Develop and mail questionnaire • Present findings/recommendations to AAG • Propose agreed-upon classification changes	According to DOF, nothing ever conclusive was done regarding this recommendation. Apparently, the major hurdle is the Collective Bargaining Unit. This is a continuing issue and will continue to be examined and discussed, DOF doesn't foresee any action on this in the next year though.

STATUS OF RECOMMENDATIONS FROM DOF "REVIEW OF THE STAFFING OF THE STATE ACCOUNTING OFFICES"

RECOMMENDATION	STATUS (per DOF)
SPB should involve study group in its review of the minimum qualifications for each accounting classification to determine whether they are valid predictors of job success. • DOF, SPB to review MQ's of accounting classes: – Accounting Administrator I, II – Account Trainee – Accounting Technician – Account Clerk II • Present findings/recommendations to AAG • Implement necessary MQ changes to Accounting classes	The only classifications in which the MQ's have been updated are the Accounting Analyst and the Associate Accounting Analyst (created/mentioned) above. The minimum qualifications were raised for both of these series.
DOF, Fiscal Systems and Consulting Unit, with assistance from DPA will develop comprehensive fund/State Accounting Course. The course should be required to be completed by all professional State accountants. • Determine course content • Prepare course materials • Test/evaluate/modify course • Present course	This course has been implemented. The first test group took place in 1985 and the course was formally offered in early 1986. There are no plans at this point to provide this course to staff in classifications lower than the Accounting Trainee. This is a 16-week course that meets once per week.

STATUS OF RECOMMENDATIONS FROM DOF "REVIEW OF THE STAFFING OF THE STATE ACCOUNTING OFFICES"

RECOMMENDATION	STATUS (per DOF)
DOF, Fiscal Systems and Consulting Unit, with DPA assistance, will develop financial management course for state managers. Managers to be given a broad overview of the State's financial system (its capabilities, interrelationships, uses). • Determine course content • Prepare course materials • Test/evaluate/modify course • Present course! (6-8 training sessions)	A video tape was developed in 83/84 as a kind of introduction to the recommendation of a course, but there really has been no support from Administration in the development of a formal course. As a result, this issue is not a priority and there is nothing currently being done to establish a course.
DOF, SPB should continue to work together to understand changes being made to the State's accounting system and the impact on staffing in State accounting offices (CALSTARS system). • Develop AAG charter • Determine AAG membership • Establish AAG group	The AAG was formed and planned to meet on a quarterly basis. The last meeting was last May 1986. (DOF will send a list of members and the charter). Current issues of the AAG include the State's fixed asset accounting allocation standards.

STATUS OF RECOMMENDATIONS FROM DOF "REVIEW OF THE STAFFING OF THE STATE ACCOUNTING OFFICES"

RECOMMENDATION	STATUS (per DOF)
SPB will prepare an allocation standard chart which compares the standards use for all staff support class series. Chart will be discussed with AAG. Any agreed-upon allocation standard changes for Accounting Office classifications will be implemented by SPB. "Staffing gaps" will be included in the SPB's study of allocation standards. • Present allocations standards chart and recommendations to AAG • Implement agreed-upon changes to accounting allocation standards (including "gap" issue)	The allocation standards have not been revised. The DOF has been working with DPA and other accounting heads from various offices in reviewing the standards in the past 5-6 months. DOF doesn't foresee any action on this recommendation for the next 6-8 months.
SPB should determine whether its review of accounting staff requests is consistent with its review of other support function staff requests, noting the historical trend of disparities in staff growth patterns. • Complete allocation standards study • Discuss accounting classification review process with AAG • Implement any necessary changes to accounting review process	Because the outcome of this recommendation is dependent on the findings of the SPB allocation standards study, (see recommendation directly above) there is no progress on this to date.

STATUS OF RECOMMENDATIONS FROM DOF "REVIEW OF THE STAFFING OF THE STATE ACCOUNTING OFFICES"

RECOMMENDATION	STATUS (per DOF)
DOF and operating depts. with SPB assistance should determine whether current Accounting Office staffing (including levels, #'s) and "gaps" need revision. • Develop CALSTARS accounting office review procedures and reporting requirements • Revise CALSTARS implementation procedures • Review staffing of CALSTARS accounting offices • Notify non-CALSTARS depts. of revised accounting office staffing policies	Nothing formal has been done to address this recommendation.
SPB should complete its consideration of establishing Accounting Administrator III and IV classifications for depts. with complete accounting requirements, as discussed in its June 1980 Accounting Classification Study. • Develop and mail letter • Present findings and recommendations to AAG • Propose agreed-upon classifications	The Accounting Administrator III position has been established and testing is currently underway. Interviews will be held in December. Concurrence was not achieved for the Accounting Administrator IV so the SPB and DPA suggested that the CEA be used in lieu of this position.

GRAY DAVIS
Controller of the State of California
P.O. Box 942850
SACRAMENTO, CA 94250-0001

May 4, 1987

Honorable Thomas W. Hayes
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes,

This is in response to your letter of April 7, 1987, in which you request our comments on the report prepared by Price Waterhouse entitled "An Evaluation of the Financial Reporting System of the State of California".

We have reviewed the final draft of this report and discussed its findings with Price Waterhouse's staff as well as your own. As I had discussed with you, we had looked forward to the consultant's identification of innovative improvements which would assist state agencies, this Office and the Auditor General in producing an earlier annual report. Unfortunately the consultant did not provide any new ideas. In fact, the consultant's recommendation to require by law the issuance of a legal basis report by November 30 fails to identify any material changes in procedures which would bring this about.

Additionally, the report contains a number of points applicable to the State Controller's Office with which we disagree:

> We disagree that the annual report is prepared "without the benefit of a detailed project management plan and schedule". We have a plan which we believe is realistic, effective and sufficiently detailed. For instance, during the past two years we have successfully managed the preparation of our annual report against this plan which has resulted in a completed report on or slightly before the scheduled due date.

We disagree that computer technology is not yet effectively utilized. This statement is based upon the consultant's recommendation that personal computers be used to compile data for the annual report instead of the mainline computer system. Our computer system plan for automating the Annual Report is in the final phase of the original system design which was developed as a part of the California Fiscal Information System (CFIS) in 1982. We have already completed the portion of the system which compiles and prints revenue and expenditure statements (which is roughly 60% of the report) through the mainline computer system. When the final phase is implemented, the system will also compile and produce print-ready fund statements. We expect to start testing the final phase in May of this year and if the results are successful, the 1986/87 fund statements for governmental cost funds will be produced by the mainline computer system. We believe the plan we have devised to automate the production of the Annual Report will result in the most effective utilization of computer technology.

We disagree that the agency year-end reports are redundant. All reports are necessary either to produce our annual report or to ensure that agency accounts are reconciled.

We disagree with comments regarding utilization of staff resources within the Division of Accounting's Bureau of Financial Reports and Apportionments. The evaluation and reallocation of staff is done regularly. This allows staff to broaden their experience and provides cross-training to prevent dependency on specific individuals for specific jobs.

We disagree that the deadline for the GAAP-basis report and the Legal basis report should be different. Both reports are based upon data which is classified and compiled in order to prepare both final reports. Consequently they are both published at approximately the same time.

We disagree that later due dates of the agency year-end reports should be established. This would tend to delay the preparation of the report rather than hasten it.

The above comments summarize our major concerns with the Price Waterhouse report. We have excluded a number of detailed comments regarding items and phraseology which we have already related to the consultant. We compliment Price Waterhouse for their sincere efforts to make recommendations which would result in an earlier publication of the year-end report but are disappointed that the recommendations contained in the report do little to accomplish this objective.

Sincerely,

F. Arnold Schuler
Deputy State Controller

2580A

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps