

2025-602 State High Risk: State of California's Late Financial Reporting

Audit Scope and Objectives

This audit of the State's late annual financial reporting is conducted pursuant to Government Code section 8546.5, which authorizes the State Auditor to identify, audit, and issue reports on any agency of the State or any statewide issue that it identifies as being at high risk for the potential of waste, fraud, abuse, or mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. The State Auditor developed the following objectives and contracted with an independent accounting firm to conduct an external audit of this high risk issue.

1. Evaluate the effectiveness and efficiency of the State Controller's Office's (SCO) process for compiling the Annual Comprehensive Financial Report (ACFR), including an evaluation of:
 - (a) Its project management efforts and the use of its authority to compel timely reporting by state entities.
 - (b) Its financial reporting instructions to state entities, as well as the SCO's ability to support state entities with generally accepted accounting principles (GAAP)-compliant reporting.
 - (c) Its process for compiling department GAAP entries and financial statements to prepare the ACFR, and whether the SCO has taken sufficient action to address previously reported internal control findings on financial reporting.
2. Assess the Department of Finance's responsibilities and efforts to assist with the preparation of the ACFR, including an assessment of the following:
 - (a) How the fiscal and accounting policies it sets for state departments and agencies assist with ACFR preparation.
 - (b) Whether the training it provides to state agencies regarding accounting principles assists with ACFR preparation, and how such training could be enhanced.

3. Assess the effectiveness and efficiency of the State Auditor's role in California's ACFR process, including an evaluation of the following:
 - (a) Whether or not the State Auditor has developed an effective and efficient audit approach. Evaluate the quantity and quality of the audit work and provide suggestions where the State Auditor may be "over" or "under" auditing the State's financial records.
 - (b) The State Auditor's project management efforts related to the assignment of audit staff and the office's ability to efficiently complete audit work with timely and GAAP-compliant reporting from state departments and control agencies.
 - (c) The quality of the State Auditor's ACFR-related communications, including the specificity of its comments to state departments and control agencies regarding departures from GAAP and the need for audit adjustments and other corrective actions.
 - (d) Whether the State Auditor is sufficiently staffed to conduct its ACFR audit in a timely manner.
4. For a selection of up to five state entities whose financial data were material to the State's financial statements and who did not provide timely and/or accurate financial reports in FY 2022-23, determine the following:
 - (a) Why these state entities did not report GAAP-compliant financial information and journal entries within the required timeframes, and the extent to which they received technical assistance from the SCO.
 - (b) Whether or not each state entity's accounting office and other key units possess a sufficient understanding of GAAP to facilitate timely financial reporting for the ACFR.
 - (c) For each selected state entity, determine what additional support, training, or other resources are required to better ensure timely GAAP-compliant reporting.