



# *State of California*

Internal Control and Compliance Audit Report  
for the Fiscal Year Ended June 30, 2025

*May 2026*

**REPORT 2025-001.1**





**CALIFORNIA STATE AUDITOR**

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May 15, 2026  
**2025-001.1**

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Government Code section 8543 et seq., the California State Auditor's Office presents its audit report pertaining to our review of the State of California's internal controls and compliance with state regulations for the fiscal year ended June 30, 2025.

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance based on our audit of the State's basic financial statements. We identified four deficiencies in internal control over financial reporting that we consider to be material weaknesses and six other deficiencies that we consider to be significant. Deficiencies in the State's internal control system could adversely affect its ability to provide accurate and timely financial information.

Respectfully submitted,

A handwritten signature in black ink that reads "Linus Li".

LINUS LI, CPA  
Deputy State Auditor

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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

The Governor and the Legislature of the State of California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2025, and the related notes to the financial statements, and have issued our report thereon dated May 5, 2026.

Our report includes a reference to other auditors who audited the financial statements of the following, as described in our report on the State of California's financial statements:

**Government-wide Financial Statements**

- Certain governmental funds that, in the aggregate, represent 1 percent of the assets and deferred outflows, and less than 1 percent of the revenues of the governmental activities.
- Certain enterprise funds that, in the aggregate, represent 84 percent of the assets and deferred outflows, and 52 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 91 percent of the assets and deferred outflows, and 94 percent of the revenues of the discretely presented component units.

**Fund Financial Statements**

- The following major enterprise funds: Water Resources, State Lottery, and California State University.
- The Golden State Tobacco Securitization Corporation, the Public Buildings Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control Revolving, the Safe Drinking Water State Revolving, and the 1943 Veterans Farm and Home Building funds, that represent 86 percent of the assets and deferred outflows, and 50 percent of the additions, revenues, and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Buildings Construction Fund, the State Lottery Fund, and the Campus Foundations of the University of California, which represent 14 percent of the university's total assets and deferred outflows of resources and 5 percent of its revenues, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Golden State Tobacco Securitization Corporation, the Public Buildings Construction Fund, the State Lottery Fund, or the Campus Foundations of the University of California.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of California's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying section entitled Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying section entitled Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements as items 2025-1 through 2025-4 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying section entitled Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements as items 2025-5 through 2025-10 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of California's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## State of California's Response to Findings

*Government Auditing Standards* require the auditor to perform limited procedures on the State of California's response to the findings identified in our audit and described in the accompanying section entitled Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements. The State of California's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CALIFORNIA STATE AUDITOR



LINUS LI, CPA

Deputy State Auditor

Sacramento, California

May 5, 2026

**STATE OF CALIFORNIA**  
**SCHEDULE OF FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

**Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

# **Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements**

**DEPARTMENT OF FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)**

Reference Number: 2025-1

**Condition:**

We identified pervasive findings in the overall information technology (IT) general controls and application controls environment of the Financial Information System for California (FI\$Cal). Specific details are withheld pursuant to Government Code section 8592.45, which prohibits disclosure of certain information related to the FI\$Cal IT infrastructure. Accordingly, and consistent with applicable auditing standards, we decided not to publish these details.

In prior fiscal years, exceptions were tracked based on the Federal Information System Controls Audit Manual (FISCAM) control technique number. Following the fiscal year 2023–24 audit, the FISCAM framework was simplified, which included combining the general and application security control categories into other general control categories.

In fiscal year 2023–24, there was a universe of 278 control techniques in scope. In fiscal year 2024–25, there was a universe of 174 illustrative controls in scope. This review considered contingency planning as out of scope. As a result, deficiency counts are no longer directly comparable to prior years. Any trend analysis should account for these structural changes to ensure accurate interpretation.

Eleven (11) out of twenty-five (25) control deficiencies are complete or partial repeat deficiencies from prior fiscal years with at least one dating back to 2023. Further, sufficient compensating controls were not in place to reduce the impact of these findings on the IT general and application controls environment.

The primary cause of these issues was that the Department of FISCAL's (department) control processes lacked the necessary level of maturity to consistently achieve its objectives. This was due to inadequate documentation or documentation that was not retained, gaps in established processes or a lack of monitoring and feedback mechanisms to identify and implement process improvements in a timely manner.

The deficiencies result in pervasive risks at the entity and system-level to automated controls and configurations of the FI\$Cal system, which potentially impact the ability to rely on FI\$Cal data used for financial reporting. Lack of IT general controls could compromise the reliability and integrity of financial data and increases the risk of misstatements in the financial reports.

**Criteria:**

*Financial Audit Manual* (FAM) Volume 1, dated June 2025, section 340 states in relevant part:

.06 The auditor should determine whether the specific control activities identified are IS controls. IS controls are internal controls that depend on information system processing. They include user controls, application controls, and general controls.

- a. User controls are controls that are performed by people interacting with information systems. A user control is both a manual control and an IS control if its effectiveness depends on information system processing. A user control is only a manual control if its effectiveness does not depend on information system processing.
- b. Application controls are controls that are incorporated directly into application software, including controls over the input, processing, and output of data.
- c. General controls are designed to mitigate information security risks and are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.
  - Direct general controls directly support the effective operation of user and application controls. Such controls reasonably assure that business process applications, system interfaces, and data management systems are properly managed to achieve information processing objectives. Examples of direct general controls include
    - authorizing and assigning roles and corresponding access privileges to users with a valid business purpose for accessing the business process application;
    - authorizing, testing, and approving modifications to business process application software, including tools and techniques for system interface processing (e.g., job scheduling software);
    - logging system interface processing events to permit management oversight; and
    - controlling modifications to data management systems and data maintained in those systems.
  - Indirect general controls maintain a suitable environment to support the effective operation of user, application, and direct general controls. Such controls reasonably assure that information systems are properly managed to achieve information security objectives. Examples of indirect general controls include
    - logging and monitoring the use of privileged system accounts;
    - implementing appropriate encryption techniques for data;
    - protecting audit records and audit logging tools from unauthorized access, modification, or deletion;
    - managing configuration settings to optimize the security features of system software;
    - maintaining a complete and accurate inventory of system components (hardware and software);
    - performing vulnerability scanning and flaw remediation, including timely patch management; and
    - conducting regular backups of data and software at a frequency consistent with risk.

*State Administrative Manual (SAM)*, section 5300.5, states:

California has adopted the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 as minimum information security control requirements to support implementation and compliance with the Federal Information Processing Standards (FIPS). Each state entity shall use the FIPS and NIST SP 800-53 in the planning, development, implementation, and maintenance of their information security programs.

SAM section 5305, states:

Each state entity is responsible for establishing an information security program. The program shall include planning, oversight, and coordination of its information security program activities to effectively manage risk, provide for the protection of information assets, and prevent illegal activity, fraud, waste, and abuse in the use of information assets.

Each state entity shall:

1. Align the information security program, its activities, and staff with the requirements of this Chapter;
2. Establish a governance body to direct the development of state entity specific information security plans, policies, standards, and other authoritative documents;
3. Oversee the creation, maintenance, and enforcement of established information security policies, standards, procedures, and guidelines;
4. Ensure the state entity's security policies and procedures are fully documented and state entity staff is aware of, has agreed to comply with, and understands the consequences of failure to comply with policies and procedures;
5. Identify and integrate or align information security goals and objectives to the state entity's strategic and tactical plans;
6. Develop and track information security and privacy risk key performance indicators;
7. Develop and disseminate security and privacy metrics and risk information to state entity executives and other managers for decision making purposes; and
8. Coordinate state entity security efforts with local government entities and other branches of government as applicable.

### **Recommendations:**

The department should perform a comprehensive risk assessment to re-evaluate its governance in accordance with SAM, NIST SP 800-53, FIPS, financial reporting, and other State and Federal requirements. Results should include, but are not limited to the following actions:

- Update the System Security Plan (SSP) to include all security controls associated with a system categorized as moderate risk under the State Information Management Manual.

- Continue to update policies and procedures, which demonstrate management's controls in place to monitor and prevent risk as designed within the SSP.
- Generate a project plan for remediation and establish a control environment, which reflects the strategic goals identified as part of the comprehensive risk assessment.
- Incorporate a process to make consistent progress against known and repeated control deficiencies and to actively pursue remediation of findings, which incorporates post-implementation monitoring.
- Coordinate and establish validation and verification of controls identified in the SSP.
- Conduct information, communication, and monitoring activities to promote awareness of updated processes.

Lastly, the department should retain audit evidence until the internal control review as performed by the California State Auditor (State Auditor) is completed for that corresponding fiscal year.

#### **Department's View and Corrective Actions:**

The department agrees with the State Auditor's comments and is committed to addressing any remaining findings in a timely manner. The security of the system is our highest priority and we greatly value the State Auditor's feedback and take the concerns stated in the report seriously.

To safeguard the system and data, the department is vigilant against external threats, including emerging threats and operational security, and has made consistent progress in closing the Plan of Action and Milestones and improving our security posture. The independent security assessments performed by the California Department of Technology and the California Military Department have demonstrated continuous advances in our security posture.

The department's emphasis on both external threats and internal control process improvements continued during the State Auditor's audit for fiscal year 2024–25, which concluded in January 2026. We are happy to report the department has made several improvements to governance processes, internal controls, policies, procedures, and documentation review/update processes to address the findings and further improve our maturity in internal controls and compliance. The department will continue to advance the maturity of our internal controls to fully meet the compliance requirements.

We look forward to continuing our collaboration with the State Auditor to continue to ensure the security and highest standards of the FI\$Cal system and the financial data for which we are entrusted.

## **DEPARTMENT OF HEALTH CARE SERVICES**

Reference Number: 2025-2

### **Condition:**

The Department of Health Care Services (DHCS) understated Medi-Cal expenditures for fiscal year 2024–25 in the General Fund by \$2.4 billion. Additionally, DHCS understated Medi-Cal expenditures and revenues in the Federal Fund by \$4.75 billion. For budgetary purposes, DHCS reports Medi-Cal expenditures on a cash-basis. Generally accepted accounting principles (GAAP), however, require governmental funds to be accounted for on a modified accrual basis. Specifically, expenditures must be recognized in the accounting period in which they are incurred. Additionally, the related federal funding should be recognized when all applicable eligibility requirements, including time requirements, are met. As a result, DHCS must prepare GAAP adjustments to convert its budgetary reports to the modified accrual basis for proper presentation in the State’s Annual Comprehensive Financial Report (ACFR). The following sections provide more detail about DHCS’s misstatements by program.

### **Understated Accruals for the Medi-Cal Managed Care Health Care Financing and Managed Care Public Hospital Enhanced Payment Programs**

DHCS understated expenditures and related revenues in the Federal Fund by \$2.2 billion for the Managed Care Health Care Financing Program (MCHCFP) and for the Managed Care Public Hospital Enhanced Payment Program (MCPHEPP). For the MCHCFP, DHCS also understated expenditures in the General Fund by \$1.1 billion. The MCHCFP increases payments to managed care plans to provide additional support for counties and public entities serving Medi-Cal members. The MCPHEPP provides supplemental payments to designated public hospitals for network contracted services. The misstatements related to these two programs occurred because accounting staff preparing these accruals do not have a sufficient understanding of GAAP. Specifically, DHCS incorrectly accounted for a portion of activity pertaining to fiscal year 2024–25 and certain accruals included in the prior year’s financial statements that were still outstanding as of June 30, 2025, as beginning balance restatements. Instead, DHCS should have recorded these amounts as current year expenditures. After we brought these issues to DHCS’s attention, DHCS corrected its Federal Fund and General Fund accruals for these two programs.

### **Error Pertaining to the Medicaid Drug Rebate Program**

DHCS understated General Fund expenditures by \$591 million and understated Federal Fund expenditures and revenues by \$1.6 billion for fiscal year 2024–25. The Medicaid Drug Rebate Program (Drug Rebates) reduces the federal and state costs of most outpatient prescription drugs dispensed to Medicaid patients. DHCS initially intended to use reasonable estimates to prepare its Drug Rebates accrual because actual rebate amounts from drug manufacturers were not yet available at the time of preparation. However, there was miscommunication between accounting and program staff because of a poorly worded information request from accounting staff. As a result, DHCS overstated the estimate by including rebates related

to a future fiscal year. When we brought this matter to DHCS's attention, accounting staff acknowledged the error and agreed to implement our recommendation regarding improving internal communications.

### **Errors Pertaining to the Managed Care Organization Tax**

DHCS understated its Medi-Cal Managed Care (Managed Care) expenditures in the General Fund by \$737 million and overstated its expenditures in the Health Care Related Programs Fund—a nonmajor governmental fund—by the same amount. State law authorizes DHCS to collect enrollment-based managed care organization provider tax (MCO Tax) to provide ongoing funding for health care and prevention. The General Fund initially pays for Managed Care payments to Medi-Cal providers and is then reimbursed with MCO Tax Revenue. However, DHCS overstated its accrual estimate of the reimbursements the Health Care Related Programs Fund owed to the General Fund. DHCS made these errors because its written methodology for preparing the MCO Tax accruals does not provide DHCS staff with sufficient detail to ensure that they prepare these accruals in compliance with the applicable Governmental Accounting Standards Board's (GASB) reporting requirements. For example, the methodology does not directly address GASB's recognition criteria for nonexchange transactions that apply to MCO Tax. After we brought these errors to DHCS's attention, it revised the accruals to correct them.

### **Errors Pertaining to Additional DHCS Programs**

DHCS understated expenditures and related revenues in the Federal Fund by \$514 million for the Substance Use Disorder (SUD) treatment services program. The SUD treatment program is part of the Drug Medi-Cal Organized Delivery System, which expands services and provides a continuum of care to eligible Medi-Cal members. Counties participating in the SUD treatment program may submit claims up to 12 months after providing services. In fiscal year 2023–24, DHCS estimated the amount of SUD claims it expected to receive after fiscal year end. The misstatement occurred because DHCS inadvertently omitted this estimate from its accrual methodology for fiscal year 2024–25. After we brought this issue to DHCS's attention, the department subsequently revised the accrual to correct this error.

In addition, when preparing its year-end accruals for the Mental Health program, DHCS understated expenditures and liabilities by \$432 million in the Federal Fund. The Mental Health program provides funding for certain mental health services to patients eligible for Medi-Cal. This understatement occurred because DHCS redesigned its accrual calculation workbook for fiscal year 2024–25. The new workbook contained various formula errors that resulted in DHCS incorrectly omitting amounts that should have been included in the accrual calculation for the current fiscal year. We brought this calculation error to DHCS management, and the error was subsequently corrected.

**Criteria:**

Government Code section 12461 requires the State Controller's Office (State Controller) to issue an annual financial report that is prepared in accordance with GAAP. The State Controller provides guidance to departments on the preparation of their year-end financial statements in its Year-End Financial Reports Information GAAP Basis manual. To prepare its financial report, the State Controller annually requests that departments submit GAAP-related adjustments for the funds they manage.

*Codification of Governmental Accounting and Financial Reporting Standards* section 1600 states that financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus and modified accrual basis of accounting require expenditures to be reported when the related liability has been incurred except in certain limited circumstances.

*Codification of Governmental Accounting and Financial Reporting Standards* section N50 states that for nonexchange transactions, recipients should recognize revenues, and providers should recognize expenditures, when all applicable eligibility requirements are met.

*Codification of Governmental Accounting and Financial Reporting Standards* section 2250 states that an error results from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date.

*State Administrative Manual (SAM)* sections 8340 and 10608 require departments to accrue expenditures at fiscal year-end and record liabilities in accounts showing to whom amounts are due. SAM section 7981 requires departments to review their expenditure accruals periodically for material changes.

**Recommendations:**

To ensure that its financial statements are properly presented at fiscal year-end, DHCS should do the following:

- Provide additional guidance and training to accounting staff on the requirements of GAAP including but not limited to the development of GAAP-compliant accruals and the proper recognition of expenditures and revenues.
- Improve internal communications among program and accounting staff who prepare the GAAP accruals.
- Develop detailed accrual methodologies that comply with GAAP and update them annually.
- For accruals that include estimated amounts, develop detailed methodologies for determining the estimated amounts and update these methodologies annually.
- Adopt review procedures to identify material entry errors.

**Department's View and Corrective Actions:**

DHCS described several actions it will take to address our recommendations. It indicated that it will provide targeted guidance and training to accounting staff to promote consistent GAAP applications and that it will improve its internal communications by reinforcing expectations for timely information sharing between program and accounting staff to ensure that it uses complete and accurate data. DHCS will also update its accrual methodologies to ensure consistency with GAAP and review these methodologies annually. Furthermore, DHCS states that it will review existing controls and identify opportunities to enhance data accuracy and reasonableness of its estimates, internal review, and documentation standards. Finally, DHCS stated that it will implement a process for management to review material variances.

**EMPLOYMENT DEVELOPMENT DEPARTMENT**

Reference Number: 2025-3

**Condition:**

The Employment Development Department (EDD) has corrected many of the financial reporting issues we identified in previous audits, such as misstated account balances, but significant risks remain in its accounting practices. During our fiscal year 2024–25 audit, EDD addressed issues we had previously reported. Specifically, it corrected its erroneous reporting of \$1.2 billion related to Federal Unemployment Tax Act credits and identified the source of \$493 million it has on deposit with the federal government. Further, it identified \$768 million in returned overpayments that it collected since January 2019 but had not used for program purposes. During fiscal year 2025–26, EDD has since used these overpayment funds to make benefit payments. As a result, we were able to issue an unmodified opinion for those opinion units related to EDD’s funds for fiscal year 2024–25.

Despite these improvements, EDD’s financial accounting practices still exhibit a high risk of material misstatement and the potential for modified opinions in subsequent fiscal years. A significant lingering concern is EDD’s poor controls over its record keeping and financial analysis. Additionally, EDD continues to be unable to perform reconciliations in a timely manner.

Although EDD uses the Financial Information System for California (FI\$Cal)—the State’s accounting system—to prepare its financial records, it continues to rely on standalone spreadsheets and analysis that its staff prepare externally before inputting this information into the system. However, the use of these spreadsheets that are not part of the controls of a formal accounting system has led to errors and derived amounts lacking support. For example, in reviewing its uncleared collections balance as of June 2025, EDD identified errors in its cash account resulting from EDD staff leaving an erroneous note in a spreadsheet in 2021 describing that amounts for benefit payments had not been remitted when they actually had, resulting in staff reviewing the same document two years later to record entries to remit the amounts a second time. Although this error did not result in the State paying any actual cash, it did result in a significant misstatement of \$305 million to the accounting records for the cash account that was not identified and corrected until fiscal year 2024–25. EDD also uses spreadsheets to derive its annual expenditure accrual rather than basing the accrual on actual amounts from its accounting records, which could lead to additional errors.

In another example, EDD retained \$768 million in overpayments from January 2019 through June 2025 because it relied on spreadsheets that were not linked to its accounting system to record and track the overpayments. Although EDD included the amounts on the side of the spreadsheet where it tracked its cash balances, it did not attempt to determine the appropriate accounting of the funds until fiscal year 2025–26. If EDD had promptly and accurately accounted for these overpayments, it could have used them much sooner to reduce its need for federal loan funds. Further, EDD’s reliance on spreadsheets that its staff manually update led it to draw federal loan funds it did not need and incur interest costs that it could have avoided. In January and March 2021, EDD reported receiving \$171 million in erroneous unemployment

insurance payments. Because EDD used an external spreadsheet to track these payments, it repaid the entire amount using new federal loan proceeds instead of reconciling the discrepancy to identify and return them. Consequently, EDD retained the erroneous payments until September 2025 when it identified this mistake.

Although completing prompt and thorough monthly reconciliations to its bank accounts and the SCO's records would assist EDD with identifying inaccuracies in its financial reporting, it frequently completes both types of reconciliations late. For example, EDD completed each of its 12 monthly reconciliations for fiscal year 2024–25 for one bank account in October 2025 and all were late. For EDD's main bank account for the unemployment program, it completed 9 of the 12 monthly reconciliations for fiscal year 2024–25 one or more months late. For that year, EDD also completed 5 of the 12 monthly reconciliations of its unemployment fund to the SCO's records one or more months late. Moreover, EDD prepared its reconciliation to the SCO's accounts before it completed its reconciliation of its cash and uncleared collection accounts. This sequence is concerning because EDD is performing its reconciliation before closing its books or completing its cash reconciliations, thereby using amounts that were subject to change and may not be accurate.

**Criteria:**

Government Code section 12461 requires the State Controller's Office (State Controller) to issue an ACFR that is prepared in accordance with GAAP.

*Codification of Governmental Accounting and Financial Reporting Standards* section 1600 states that the financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred.

*Codification of Governmental Accounting and Financial Reporting Standards* section 1600 states that the financial statements for proprietary funds should be presented using the economic resources measurement focus and the accrual basis of accounting. Specifically, most transactions are recognized when they occur, regardless of when cash is received or disbursed.

*State Administrative Manual* (SAM) section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared monthly within 30 days of the preceding month.

SAM section 7923 requires departments to reconcile their bank account balances with the like accounts maintained in the Centralized Treasury Trust System (CTS). Departments must reconcile their general cash, revolving fund cash, and agency trust fund cash accounts with their CTS Account Statement bank balance and adjust for deposits in-transit, outstanding checks, and other reconciling items. The reconciliation must identify and describe each reconciling item.

**Recommendations:**

To prevent misstatements from recurring in its financial reports, EDD should take the following actions:

- Develop tools—such as reconciliations of the spreadsheets it relies on—to reduce the risk of error or, to the extent possible, eliminate the use of these spreadsheets and instead use FI\$Cal to perform its accounting activity.
- Redesign its internal business processes that are affecting the timeliness of performing monthly reconciliations and work with the Department of Finance and the State Controller to obtain any additional training for staff to ensure that they can properly perform monthly reconciliations and do so promptly.
- Perform its monthly bank reconciliations and reconciliations to the accounts maintained by the State Controller in a timely manner, and it should do so before submitting timely financial statements to the State Controller.
- Develop a process, such as the use of a checklist, to track completion of all required month-end and year-end business processes to ensure that they are completed promptly and prior to submitting its financial statements to the State Controller.
- Provide guidance and training to accounting staff on the requirements of GAAP.

**Department's View and Corrective Actions:**

EDD agreed with our recommendations and stated that it would implement them. It plans to begin reconciling one of its standalone spreadsheets to FI\$Cal to help ensure accuracy. Further, it stated that it would look at ways to reduce its timelines and ensure that it completes its reconciliations before submitting its financial statements. EDD also stated that it will continue working with the Department of Finance and the State Controller to strengthen its knowledge of GAAP, update its internal procedures related to GAAP, and monitor any GAAP-specific training available for staff.

## VARIOUS DEPARTMENTS PREPARING YEAR-END FINANCIAL REPORTS

Reference Number: 2025-4

### **Condition:**

Similar to prior years, we found multiple state departments did not prepare their year-end financial reports in accordance with generally accepted accounting principles for fiscal year 2024–25. Most of these departments encumbered a significant amount of funds on active contracts or grant agreements expected to incur actual expenditures in future fiscal years as contractors and grantees deliver agreed-upon goods and services. For example, departments operating programs within the Environmental and Natural Resources Fund reported \$4.4 billion in encumbrances for agreements as of June 30, 2025. The preparation of financial reports based on inconsistently applied policies and procedures raises the risk of material misstatement to the State’s Annual Comprehensive Financial Report (ACFR). Therefore, we performed additional audit procedures to mitigate the risk of material misstatement.

For example, the California Air Resources Board’s (CARB) fiscal year 2024–25 policies and procedures outline the steps CARB should take to accrue year-end expenditures and liabilities, including steps to develop estimates of expenditures incurred by vendors and grantees but not yet invoiced for payment. However, CARB primarily based its accrual on the invoices received from vendors and grantees shortly after fiscal year-end instead of developing a comprehensive estimate of eligible expenditures incurred by vendors and grantees. By limiting its year-end accrual to a review of invoices from vendors and grantees during a brief predetermined period, CARB is at risk of understating its liabilities because vendors and grantees may take months or years to submit an invoice. In such circumstances, departments are required to estimate the liability the State owes for these unbilled incurred costs.

In addition, the California Energy Commission’s (Energy) fiscal year 2024–25 policies and procedures for accruing year-end expenditures and liabilities include contacting grantees and contractors to request an estimate of unbilled eligible expenditures at fiscal year-end. However, Energy did not obtain sufficient responses from its grantees and contractors to develop a complete estimate in all instances. Instead, Energy determined its accrual amount primarily on the basis of invoices received during a brief predetermined period shortly after the end of the fiscal year. This practice is not appropriate, as we noted instances where grantees are not submitting timely invoices to the State for eligible expenditures. In such cases, Energy should estimate the liability the State owes for these unbilled incurred costs. Consequently, we performed additional audit procedures to ensure that the financial statements were not materially misstated.

Further, both CARB and Energy administer programs that provide payments to grantees in advance of meeting eligibility requirements. Accounting standards specify that providers should recognize expenditures only when all applicable eligibility requirements are met. We noted instances at both CARB and Energy where advance payments were incorrectly accounted for within their year-end accruals. If these departments do not account for advances properly, their actions may lead to a risk of material misstatements in the State’s financial statements.

Moreover, the State Water Resources Control Board (SWRCB) has made progress in the current year in developing procedures to estimate expenditures incurred as of the end of the fiscal year related to grant programs that it administers. However, SWRCB did not maintain adequate support documenting these accrual estimates. Therefore, we were unable to verify that it appropriately followed its accrual methodology. In another instance, SWRCB did not fully implement its year-end accrual procedures for preparing an estimate, and instead, limited its reporting of liabilities and expenditures for fiscal year 2024–25 to invoices received shortly after fiscal year end. By limiting its year-end accrual to a review of invoices received from grantees or contractors, SWRCB is at risk of understating its liabilities because some grantees may take months or years to submit an invoice. Lastly, in one instance, SWRCB did not document formal policies and procedures for its accrual estimate nor did it document the reasonableness of the assumption used as the basis of the accrual. Consequently, we performed additional audit procedures to ensure that the financial statements were not materially misstated.

The California Department of Public Health (Public Health) has made progress in the current year in updating its centralized accrual procedures to guide program managers on how to appropriately report their programs' accruals. However, its updated procedures did not require the program managers to prepare adequate documentation to support their accrual estimates. We reviewed the accrual procedures for three programs and found that one program's procedures did not distinguish accrual procedures for exchange-type transactions and non-exchange type transactions. Another program's procedures did not include a step to estimate the expenditures incurred as of the end of the fiscal year or determine whether all applicable eligibility requirements were met for non-exchange type transactions. Lastly, the third program did not have any written accrual procedures. Program managers should have formal detailed procedures that they follow when making accrual estimates in order to ensure that appropriate accruals are recorded in the State's financial statements.

Despite the various attempts that these departments have made to improve their practices for developing accruals for fiscal year 2024–25, they still need to take further action to ensure that they are accurately identifying and reporting their liabilities and expenditures. Departments have the responsibility for tracking material expenditures and properly recording them in the State's financial statements. Therefore, this issue continues to pose a significant risk of material misstatements in the State's financial statements.

**Criteria:**

Departments are responsible for maintaining a system of controls over financial reporting. The design and operation of these controls should permit management and staff, in the normal course of performing their duties, to prevent, or detect and correct, misstatements to the financial reports, in a timely manner.

*State Administrative Manual* (SAM) sections 8340 and 10608 require departments to accrue expenditures at fiscal year-end and record liabilities in accounts showing to whom amounts are due. SAM section 7981 requires departments to review their expenditure accruals periodically for material changes.

*Codification of Governmental Accounting and Financial Reporting Standards* section 1600 specifies the use of the modified accrual basis of accounting in governmental-fund financial statements. Under this basis, departments should recognize expenditures in the period they incur the liability, if measurable.

*Codification of Governmental Accounting and Financial Reporting Standards* section N50 states that for nonexchange transactions, recipients should recognize revenues, and providers should recognize expenditures, when all applicable eligibility requirements are met. This includes incurring an allowable cost under an expenditure-driven grant. For cash and other assets given in advance in nonexchange transactions, providers should report them as advances (assets), and recipients should report them as liabilities until they incur allowable costs and meet all eligibility requirements.

SAM section 7950 recommends that departments retain all accrual documents for audit purposes.

**Recommendations:**

To ensure the proper reporting of expenditures, CARB should further develop policies and procedures on how to prepare estimates to support their year-end accruals and train its staff to follow them.

To ensure the proper reporting of expenditures, Energy should further develop policies and procedures to obtain more accurate and reliable information from grantees to support their estimates.

To ensure the proper reporting of expenditures, SWRCB should train its staff to prepare year-end accruals and properly document support for its estimates.

To ensure the proper reporting of expenditures, Public Health should further develop policies and procedures on how to prepare estimates to support their year-end accruals and train its staff to follow them.

**Departments' View and Corrective Actions:**

CARB, Energy, SWRCB, and Public Health agreed with our recommendations and indicated they would implement them.

**CALIFORNIA DEPARTMENT OF RESOURCES, RECYCLING AND RECOVERY**

Reference Number: 2025-5

**Condition:**

In prior fiscal years, the California Department of Resources, Recycling and Recovery (CalRecycle) did not complete bank reconciliations or reconcile its accounts to the State Controller's Office's (State Controller) records in a timely manner. During fiscal year 2024–25, CalRecycle continued to complete its reconciliations late. Specifically, CalRecycle did not complete any of its monthly reconciliations within 30 days of the end of the month as required by the State Administrative Manual (SAM). Both the bank reconciliation and monthly account reconciliation serve as important internal controls because they enable departments to detect fraud and to identify and resolve errors or omissions in the financial information that is ultimately reported in the State's Annual Comprehensive Financial Report.

Additionally, CalRecycle submitted its year-end financial reports for fiscal year 2024–25 in August 2025, two months before it completed its June 2025 bank reconciliation in October 2025. This sequence is concerning because the completion of bank reconciliations is a necessary control for ensuring that the information in the financial reports is accurate.

CalRecycle stated that delays in completing its fiscal year 2023–24 financial reports contributed to the late reconciliations for fiscal year 2024–25. CalRecycle indicated that it prioritized meeting reporting deadlines established by the State Controller and the Department of Finance, so it directed resources to finalize the fiscal year 2023–24 financial reports before addressing the fiscal year 2024–25 reconciliations. Moreover, CalRecycle experienced additional delays in completing the reconciliations because of staff turnover.

**Criteria:**

SAM section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that the information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared within 30 days of the preceding month.

SAM section 7923 requires departments to reconcile their bank account balances with the like accounts maintained in the Centralized Treasury Trust System (CTS). Departments must reconcile their general cash, revolving fund cash, and agency trust fund cash accounts to their CTS Account Statement bank balance and adjust for deposits in transit, outstanding checks, and other reconciling items.

**Recommendations:**

CalRecycle should complete its monthly bank reconciliations and reconciliations to the accounts maintained by the State Controller in a timely manner, and it should do so before submitting timely financial reports to the State Controller.

CalRecycle should proactively address its organization's succession planning efforts to ensure that when key staff leave, the department can still perform reconciliations promptly. This effort may include cross-training of other existing staff positions and requesting funding for additional positions.

CalRecycle should redesign internal business processes that are affecting the timeliness of monthly reconciliations.

CalRecycle should work with the Department of Finance and the State Controller to obtain additional training for staff to ensure that they can properly perform monthly reconciliations in a timely manner.

**Department's View and Corrective Actions:**

CalRecycle concurs with our finding and indicated that it is committed to implementing our recommendations. CalRecycle noted that it will implement organizational, procedural, and oversight improvements to strengthen its financial management practices. These improvements include using contracted resources to standardize the month-end close process, providing staff training, and identifying automation opportunities. Further, CalRecycle plans to revise its business process to ensure that month-end closing activities continue concurrently with year-end closing activities. CalRecycle will also implement tracking dashboards that will be monitored by management and the deputy director to ensure timely oversight and intervention when needed.

**CALIFORNIA AIR RESOURCES BOARD**

Reference Number: 2025-6

**Condition:**

The California Air Resources Board (CARB) did not complete its monthly reconciliation of its accounts to the State Controller's Office's (State Controller) records in a timely manner. Specifically, CARB did not begin performing its fiscal year 2024–25 reconciliations of its accounts to the State Controller's records until December 2024, which is six months into the fiscal year and well beyond the state requirement of preparing reconciliations within 30 days of the preceding month. The monthly account reconciliation serves as an important internal control because it enables departments to detect fraud and to identify and resolve errors or omissions in the financial information that is ultimately reported in the State's Annual Comprehensive Financial Report.

CARB's accounting branch chief stated that the department did not perform the reconciliations timely because of errors resulting from its cost allocation process. Specifically, the cost allocation process within FISCal must be completed before CARB can begin preparing the monthly reconciliations. The branch chief indicated that CARB is actively working with the Department of FISCal to resolve this issue.

**Criteria:**

*State Administrative Manual* section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared monthly within 30 days of the preceding month.

**Recommendations:**

CARB should perform its monthly reconciliations to the accounts maintained by the State Controller and submit timely financial reports to the State Controller.

CARB should redesign internal business processes that are affecting the timeliness of monthly reconciliations.

CARB should work with the Department of Finance and the State Controller to obtain additional training for staff to ensure that they can properly perform monthly reconciliations and do so in a timely manner.

**Department's View and Corrective Actions:**

CARB agreed with our finding and stated that it will implement our recommendations.

**CALIFORNIA ENERGY COMMISSION**

Reference Number: 2025-7

**Condition:**

In prior fiscal years, we reported that the California Energy Commission (Energy) did not complete bank reconciliations or reconcile its accounts to the State Controller's Office's (State Controller) records in a timely manner. During fiscal year 2024–25, Energy continued to complete its reconciliations late.

Specifically, 11 of the 12 monthly reconciliations to the State Controller's records and eight of the 12 monthly bank reconciliations were completed late. Further, both types of reconciliations began beyond the state requirement of preparing reconciliations within 30 days of the preceding month. The account reconciliation and the bank reconciliation both serve as important internal controls because they enable departments to detect fraud and to identify and resolve errors or omissions in the financial information that is ultimately reported in the State's Annual Comprehensive Financial Report.

Energy stated that the late completion of fiscal year 2024–25 reconciliations is because of a lack of staffing within its accounting office. Further, Energy stated that it is currently working with the Department of Finance to address this issue.

**Criteria:**

*State Administrative Manual* (SAM) section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared monthly within 30 days of the preceding month.

SAM section 7923 requires departments to reconcile their bank account balances with the like accounts maintained in the Centralized Treasury Trust System (CTS). Departments must reconcile their general cash, revolving fund cash, and agency trust fund cash accounts with their CTS Account Statement bank balance, and they must adjust for deposits in-transit, outstanding checks, and other reconciling items.

**Recommendations:**

Energy should perform its monthly reconciliations in a timely manner.

Energy should proactively address its organization's succession planning to ensure that when key staff leave, the department can still perform reconciliations promptly. This effort may include conducting cross-training of other existing staff positions, requesting funding for additional positions, or exploring the possibility of contracting for external assistance to provide additional support.

Energy should redesign internal business processes that are affecting the timeliness of its monthly bank and account reconciliations.

Energy should work with the Department of Finance and the State Controller to obtain any additional training for staff to ensure that they can properly perform monthly reconciliations and do so in a timely manner.

**Department's View and Corrective Actions:**

Energy concurs with our recommendation to perform monthly reconciliations and to submit financial reports to the State Controller in a timely manner. It noted that it has updated policies and procedures, provided cross-training to staff, and secured external support when necessary. Energy has also initiated discussions with the Department of Finance to request additional resources to help ensure that its accounting office is adequately staffed.

**DEPARTMENT OF PARKS AND RECREATION**

Reference Number: 2025-8

**Condition:**

In prior fiscal years, the Department of Parks and Recreation (State Parks) did not complete its monthly reconciliation of its accounts to the State Controller's Office's (State Controller) records in a timely manner or not at all. During fiscal year 2024–25, State Parks continued to complete its reconciliations late. Specifically, State Parks did not complete any of its reconciliations within the 30-day requirement as required by the State Administrative Manual (SAM). The monthly account reconciliation serves as an important internal control because it enables departments to detect fraud and to identify and resolve errors or omissions in the financial information that is ultimately reported in the State's Annual Comprehensive Financial Report.

State Parks' chief of accounting stated that State Parks did not perform its reconciliations within the 30-day timeline because of its month-end closing practice that required State Parks to wait for all outstanding transactions to clear through the State Controller before closing its FI\$Cal sub-modules, including Accounts Payable, Accounts Receivable, Labor, and General Ledger. Furthermore, the accounting chief stated that during fiscal year 2025–26, State Parks determined that State Controller agency account reconciliations can be completed without waiting for the State Controller to clear the outstanding transactions. Therefore, State Parks will revise its processes and procedures to reflect this updated approach, which will improve timeliness and support completion of the monthly State Controller agency account reconciliations within the 30-day requirement established by SAM.

**Criteria:**

SAM section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared monthly within 30 days of the preceding month.

**Recommendations:**

State Parks should perform its monthly reconciliations to the accounts maintained by the State Controller in a timely manner.

State Parks should redesign internal business processes that are affecting the timeliness of monthly reconciliations.

State Parks should work with the Department of Finance and the State Controller to obtain additional training for staff to ensure that they can properly perform monthly reconciliations and do so in a timely manner.

**Department's View and Corrective Actions:**

State Parks agreed with our finding and stated that it will implement our recommendations.

**DEPARTMENT OF PARKS AND RECREATION**

Reference Number: 2025-9

**Condition:**

As we have reported in previous fiscal years, the Department of Parks and Recreation (State Parks) has been unable to reconcile its capital asset account balances for buildings and related improvements to a subsidiary inventory ledger. Therefore, State Parks has not been reporting complete and accurate information to the State Controller's Office (State Controller) for inclusion in the State's Annual Comprehensive Financial Report (ACFR). During fiscal year 2024–25, we again found that State Parks lacked a comprehensive inventory of its buildings and related improvements. Therefore, it continues to be unable to reconcile its account balances. As a result, for fiscal year 2024–25, State Parks reported the same capital assets to the State Controller that it reported in fiscal year 2017–18.

Prior to implementing the Financial Information System for California (FI\$Cal) in fiscal year 2017–18, State Parks reported its capital assets based on historical account balances reflected in the California State Accounting and Reporting System (CalSTARS)—the department's previous accounting system. However, State Parks did not have a subsidiary ledger listing the buildings and related improvements that made up the account balance. To establish such a ledger, State Parks began engaging its districts in February 2020 to conduct an inventory of these assets. Nevertheless, the inventory records resulting from these ongoing efforts continue to contain information that does not comply with generally accepted accounting principles (GAAP) and cannot be used for financial reporting purposes.

Specifically, the approach being taken by State Parks is to use records originating from its asset management system (Maximo) and request that district personnel verify their completeness and accuracy. However, because Maximo was not used for accounting purposes, the data that State Parks extracted for reporting its capital assets do not always comply with GAAP. In particular, assets are not always recorded at historical cost (or acquisition value for donated assets). Similarly, Maximo did not always record accurate acquisition dates for a significant number of assets. Because the State depreciates buildings and related improvements over a period of 40 years, such inaccuracies would cause errors in depreciation calculations. In January 2026, we obtained a copy of State Parks' most recent inventory and noted that the information still contains inaccuracies with historical costs and acquisition dates.

In April 2026, State Parks provided us with its corrective action plan to address the issues noted above. This plan reports that State Parks currently lacks the type of standardized procedures needed to ensure the complete and accurate reporting of information from its 21 districts. Specifically, there is a lack of documented procedures outlining roles, responsibilities, timing, and processes, across the many districts and divisions, which has resulted in a lack of consistent execution, valuation, and reporting of assets. In addition, the plan reports issues with insufficient knowledge and coordination among staff and a lack of training to address these issues. In its plan, State Parks stated that the scale and complexity of its asset portfolio have compounded these issues, making consistent inventory tracking and reconciliation difficult without standardized controls in place.

State Parks also included in its plan a timeline showing its intended completion in late 2027. Consequently, State Parks expects to continue to report inaccurate capital asset information in the ACFR until fiscal year 2026–27. Accordingly, we requested State Parks to provide us with an estimate of the possible amount of misstatement to its capital asset account balances for fiscal year 2024–25, but it was unable to do so. Therefore, we performed additional procedures and determined that based on the historical level of funding made available to State Parks, these issues do not pose a material risk of misstatement to the State’s fiscal year 2024–25 ACFR. Nevertheless, it is important for State Parks to implement our recommendations to avoid a possible material misstatement in the future.

**Criteria:**

*Codification of Governmental Accounting and Financial Reporting Standards* section 1400.102 states that capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees. Interest incurred before the end of a construction period should not be capitalized as part of the asset’s historical cost. Donated capital assets should be reported at their acquisition value plus ancillary charges, if any.

*Codification of Governmental Accounting and Financial Reporting Standards* section 1400.104 states that capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets reported using the modified approach.

*State Administrative Manual* (SAM) section 8650.1 states that to maintain accountability of capital assets, departments are required to maintain a record of all property, whether capitalized or not, in a property accounting or inventory system.

SAM section 8650.2 states that when capital assets are acquired, departments will record certain information in their systems including the date acquired, property description, owner fund, and historical cost or other basis of valuation.

SAM section 7924 directs departments to reconcile acquisitions and dispositions of capitalized assets and property with the amounts recorded in the property register. The reconciliation should be done monthly or at least quarterly, depending on the volume of transactions.

SAM section 8652 states that departments are to make a physical count of all property and reconcile the count with their accounting records at least once every three years.

**Recommendations:**

To ensure that it properly reports its capital assets in its year-end financial statements, State Parks should take the following actions:

- Develop and implement the necessary controls to ensure consistent execution, valuation, and reporting of capital assets by districts and divisions in compliance with GAAP.

- Provide training to district and division staff on GAAP accounting.
- Conduct a comprehensive inventory of capital assets.
- Update its subsidiary capital asset records in FISCAL to reflect the results of the inventory and ensure that its year-end financial reports reflect any necessary restatements.
- In accordance with SAM section 8652, conduct a physical count of all property and reconcile the count with its accounting records at least once every three years.

**Department's View and Corrective Actions:**

State Parks agrees with our recommendations and states that it will implement various control activities, including a formal review of asset transactions. Additionally, State Parks intends to strengthen the accuracy and consistency of its accounting records by providing training to districts and division staff on GAAP accounting. State Parks is in the process of conducting a comprehensive inventory and will review and update its FISCAL capital asset records to reflect its comprehensive inventory results, after which it will conduct physical property inventories at least once every three years in accordance with SAM section 8652.

**STATE WATER RESOURCES CONTROL BOARD**

Reference Number: 2025-10

**Condition:**

In prior fiscal years, we reported that the State Water Resources Control Board (SWRCB) did not complete its monthly reconciliations of its accounts to the State Controller's Office's (State Controller) records in a timely manner. During fiscal year 2024–25, SWRCB continued to complete its reconciliations late. In particular, SWRCB did not begin performing its fiscal year 2024–25 reconciliations of its accounts to the State Controller's records until December 2024, which is six months into the fiscal year and well beyond the state requirement of preparing reconciliations within 30 days of the preceding month. The monthly account reconciliation serves as an important internal control because it enables departments to detect fraud and to identify and resolve errors or omissions in the financial information that is ultimately reported in the State's Annual Comprehensive Financial Report.

SWRCB stated that challenges with performing the fiscal year 2023–24 year-end closing procedures using the Financial Information System for California (FI\$Cal) contributed to the delayed completion of monthly reconciliations in fiscal year 2024–25. Specifically, there is a significant delay in completing the month-end reconciliation process at the beginning of each fiscal year because SWRCB cannot start closing accounting periods of the current fiscal year until it completes the year-end closing processes of the prior year.

**Criteria:**

*State Administrative Manual* section 7901 requires that departments reconcile their accounts to those accounts maintained by the State Controller to disclose errors as they occur. Departments should analyze differences and make corrections to their accounts or request corrections to the State Controller's accounts so that information between both systems is complete and accurate. Corrections to errors must be made as soon as possible, and reconciling differences must be resolved before financial reports are prepared to ensure the accuracy of these reports. Reconciliations shall be prepared monthly within 30 days of the preceding month.

**Recommendations:**

SWRCB should perform its monthly reconciliations in a timely manner.

SWRCB should proactively address its organization's succession planning to ensure that when key staff leave, the department can still perform reconciliations promptly. This effort may include conducting cross-training of other existing staff positions, requesting funding for additional positions, or exploring the possibility of contracting for external assistance to provide additional support.

SWRCB should redesign internal business processes that are affecting the timeliness of monthly reconciliations.

SWRCB should work with the Department of Finance and the State Controller to obtain any additional training for staff to ensure that they can properly perform monthly reconciliations and do so in a timely manner.

SWRCB should consult with the Department of FISCAL to assess month-end closing practices using FISCAL and explore system changes that are needed.

**Department's View and Corrective Actions:**

SWRCB agreed with our recommendations and is updating its policies and procedures to ensure compliance with reconciliation requirements.

Financial Audit Team for the *State of California: Financial Report for the Fiscal Year Ended June 30, 2025*, Report 2025-001, and the *State of California: Internal Control and Compliance Audit Report for the Fiscal Year Ended June 30, 2025*, Report 2025-001.1

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