



Transmitted via e-mail

November 8, 2011

Ms. Kris Perry, Executive Director  
First 5 California  
2389 Gateway Oaks Drive, Room 260  
Sacramento, CA 95833

Dear Ms. Perry:

**Management Letter—First 5 California, 2011 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial audit of the First 5 California's Children and Families Trust Fund (Fund) and related accounts for the fiscal year ended June 30, 2011. In planning and performing our audit of the financial statements of the Fund and related accounts for the fiscal year then ended, we considered the internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. During our audit we became aware of two matters that present an opportunity for strengthening internal control over the Fund. This management letter summarizes our comments and suggestions regarding this matter.

**CALSTARS Access**

The Department of General Services, Contracted Fiscal Services (CFS), performs the accounting services for the Fund and related accounts. The CALSTARS access for CFS staff should be granted on an individual basis with individual user IDs and passwords. Each staff's access should be limited to only the CALSTARS functions required to perform their specific duties. Additionally, individual CFS staff should only have CALSTARS access to the accounting records for the department(s) for which they personally perform accounting services. Currently, CFS staff access CALSTARS using one of two group user ID and passwords. The group user ID and passwords allow access to various functions in CALSTARS for all staff in a group and to all of the departments for which CFS maintains the accounting records. Limiting the CALSTARS access will provide better oversight over transactions entered into CALSTARS and promote accountability of staff.

**Reconciliation Documentation**

While the First 5 California staff perform procedures to reconcile the CALSTARS and First 5 California records, this process is not adequately documented. After the reconciliation is performed, documentation regarding the specific records reconciled, the results of the reconciliation, when and who prepared the reconciliation, and when and who reviewed and verified

the reconciliation results cannot be confirmed. Strengthening the reconciliation documentation will provide assurance to management that any errors due to error or fraud are identified and corrected timely.

The Financial Integrity and State Manager's Accountability Act of 1983 (Government Code sections 13400-13407) requires that the head of each state agency establish and maintain an adequate system of internal control within their agencies. Key elements in a system of internal control are access controls to information systems, separation of duties, and timely reconciliations.

We recommend strengthening internal control as follows:

1. CFS should assign individual CALSTARS username accounts and passwords to CFS staff and limit access to only those functions and department records required by staff to perform their duties.
2. CFS should ensure that the duties and CALSTARS access assigned to staff are adequately separated.
3. First 5 should implement procedures to adequately document the reconciliations between the CALSTARS and First 5 records.

This letter is intended as an internal management tool to assist the Fund's management in improving internal control and accountability. We appreciate the assistance and cooperation of the Fund's management and staff. If you have any questions regarding this letter, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

cc: Ms. Marsha Jones, Chief Deputy Director, First 5 California  
Ms. Kim Gauthier, Chief Counsel, First 5 California  
Ms. Terry L. Miller, Chief, Administrative Services Division, First 5 California  
Ms. Sandra Beck, Fiscal Operations Manager, First 5 California  
Ms. Kristine Cazadd, Executive Director, California State Board of Equalization  
Ms. Liz Peralta, Chief Accounting Officer, Accounting Section, State Board of Equalization  
Mr. Mike Skikos, Acting Chief, Internal Audit Division, State Board of Equalization  
Mr. Jim Martone, Acting Chief, Contracted Fiscal Services, Department of General Services  
State Controller's Office, Division of Audits, First 5 Oversight Unit



December 22, 2011

David Botelho, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Mr. Botelho:

Thank you for the opportunity to respond to the Department of Finance, Office of State Audits and Evaluations' Management Letter titled "First 5 California, 2011 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts." We appreciate the thoroughness of the audit and recommendations for strengthening our internal controls.

First 5 California contracts with the Department of General Services (DGS) to perform a variety of fiscal services. Two of the three recommendations mentioned in the Management Letter fall within DGS jurisdiction and DGS has provided the following response:

#### **CALSTARS Access**

Department of Finance Recommendations No. 1 and No. 2: Contracted Fiscal Services (CFS) staff should be granted on an individual basis with individual user IDs and passwords in order to limit the CALSTARS functions to only those required to perform the individual's specific duties.

CALSTARS access for Department of General Services, Contracted Fiscal Services (CFS) staff should be granted on an individual basis with individual user IDs and passwords in order to limit the CALSTARS functions to only those required to perform the individual's specific duties.

CFS is a full service accounting office, providing accounting services to approximately 40 CALSTARS agencies. CFS' current CALSTARS access structure consists of two levels; the first is a unique user ID and password for each client agency, the user ID is then split into a lower level indicative of the two main accounting functions (Accounts Payable and General Ledger) performed by our office. This structure enables CFS staff performing the same function to conveniently cross-train, provide backup support, and

review similar structures and transactions utilized by other client agencies to assist with their own clients. With other levels of review and controls in place, CFS feels the risk of misuse is low under the current CALSTARS access structure. In addition, the existing CALSTARS access structure has been tested during previous audits and no exceptions were noted. However, CFS management agrees with DOF and believes that individual user IDs for each staff member will promote accountability of staff by making transactions traceable to a single user ID. For this reason, we will be implementing the recommendation within the next year and believe it will strengthen CFS' existing internal controls. Supervisory staff will maintain access to all CFS client agencies to allow for issue resolution and research/review capabilities, while all other staff will only have access to their respective clients.

The third recommendation noted in the Management Letter pertains to work performed by First 5 California staff and our response follows.

### **Reconciliation Documentation**

Department of Finance Recommendations No. 3: First 5 California staff should implement procedures to document the reconciliations between the CALSTARS and First 5 California records.

First 5 California performs monthly reconciliation of CALSTARS reports to First 5 California financial records to ensure accuracy of financial transactions. First 5 California Management agrees with DOF that in addition to reconciling the reports, implementing procedures to sign and certify the monthly reconciliation reports will strengthen our internal control practices.

We want to thank you and your audit team again for conducting a professional and thorough financial statement audit for our agency.

Sincerely,

Original signed by:

Kris Perry  
Executive Director  
First 5 California

KP: sb

David Botelho, CPA  
December 22, 2011  
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cc: Jim Martone, Acting Chief, Contracted Fiscal Services, Department of General Services  
Kristine Cazadd, Executive Director, California State Board of Equalization  
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Mike Skikos, Acting Chief, Internal Audit Division, State Board of Equalization  
State Controller's Office, Division of Audits, First 5 Oversight Unit