



March 11, 2016

Ms. Camille Maben, Executive Director  
California Children and Families Commission  
2389 Gateway Oaks Drive, Suite 260  
Sacramento, CA 95833

Dear Ms. Maben:

**Management Letter—California Children and Families Commission, Financial Statement Audit of the Children and Families Trust Fund for the Fiscal Year Ended June 30, 2015**

The Department of Finance, Office of State Audits and Evaluations, has completed its financial audit of the Children and Families Trust Fund (Trust Fund) and related accounts, which collectively comprise California Children and Families Commission's (First 5 California) financial statements, for the fiscal year ended June 30, 2015.

During the course of the engagement, we became aware of a matter that presents an opportunity for First 5 California to strengthen its internal controls over its accounting and financial reporting. The matter identified is not significant enough to be considered a reportable deficiency as defined by *Government Auditing Standards*; therefore, we are communicating the matter in this letter, as discussed below. This letter does not affect our report dated March 4, 2016 on the Trust Fund financial statements for the fiscal year ended June 30, 2015.

**Year-End Closing and Reporting Needs Improvement**

First 5 California had internal control deficiencies in the year-end closing and reporting processes, specifically relating to the year-end accrual and cash management processes. The deficiencies include the following:

- A. The process to reverse prior year accruals was not performed for all accounts. Our audit procedures detected fiscal year 2013-14 accruals that had not been reversed in July 2014, as required. Three journal entries were posted after the 2014-15 fiscal year-end close to reverse those accruals. State Administrative Manual section 8290.7 directs state departments to reverse June 30<sup>th</sup> accruals on July 1<sup>st</sup> to comply with generally accepted accounting principles. The three journal entries corrected the following overstatements:

Fund	Account	Amount
631	Accounts Payable	\$ 368,083
636	Due to Other Governments	172,592
639	Due to Other Governments	695,959

- B. The monitoring process to ensure adequate cash balances are maintained was not operating as designed. Negative cash balances were reported in the audited financial statements for Funds 0637 and 0638, yet there were significant balances in the investment accounts to compensate for these negative balances. While the monthly fund reconciliations were performed, errors in posting caused the accounts to report negative balances. Government Code section 13403 states that an effective system of internal review is an element of a satisfactory system of internal control.

**Recommendations:**

- A. Develop or improve existing policies and procedures related to the reversal of prior year accruals to ensure accruals are reported accurately.
- B. Evaluate monitoring processes to identify weaknesses in the implementation of internal controls relating to cash management. Develop or improve existing policies and procedures as needed to ensure cash transactions are recorded accurately.

This information is intended solely for the use of First 5 California management and others within First 5 California, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this letter is a matter of public record and its distribution is not limited.

We appreciate the assistance and cooperation of First 5 California management and staff. If you have any questions regarding this letter, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA  
Assistant Chief, Office of State Audits and Evaluations

cc: Ms. Diane Levin, Chief Deputy Director, First 5 California  
Mr. Frank Furtek, Chief Counsel, First 5 California  
Ms. Kellie Westley, Director, Contracts & Procurement Division, First 5 California  
Mr. Michael Fuller, Interim Director, Fiscal Services Office, First 5 California  
Mr. George C. Halvorson, Chair, California Children and Families Commission