

The California State Auditor released the following report today:

Accounts Outside the State's Centralized Treasury System

Processes Exist to Safeguard Money, but Controls for These Accounts Need Strengthening

BACKGROUND

Although roughly \$55 billion in the possession or control of the State (state money) and held in accounts in banks that have an agreement with the Office of the State Treasurer (state treasurer) to participate in California's Centralized Treasury System (treasury system), 14 percent of all state money—or \$9.3 billion—is in nearly 1,400 bank accounts outside the treasury system (outside accounts). The treasury system was established to safeguard and maximize the return on state money, and control agencies such as the California Department of Finance (Finance), the California State Controller's Office (state controller), and the state treasurer contribute to safeguarding the State's assets, including state money. State departments, agencies, and other entities (state agencies) may need to establish outside accounts because they must deal with funds held in trust for others or to gain operational efficiencies. To do so requires either express statutory authority or authorization from Finance, and subjects the agency to certain monitoring and reporting requirements.

KEY FINDINGS

During our review of outside accounts, we noted the following:

- Most of the money in outside accounts—approximately \$8.9 billion—is held in accounts authorized by statute. A large number of these accounts with large balances have been established to hold money in trust for others.
- While holding state money in outside accounts provides for quick electronic funds transfers and allows for efficiently processing credit card transactions, there is an increased risk of mismanagement and the potential for higher costs related to these accounts.
 - ✓ Outside accounts are subject to fewer statewide controls and there is a risk that banks holding money in outside accounts for state agencies may not maintain the required level of collateral.
 - ✓ A state agency with outside accounts may incur higher bank fees than necessary—two agencies recently reduced their fees by 37 percent and 50 percent after revisiting the fees and consolidating their outside accounts, respectively.
- The control agencies do not adequately track which state agencies have outside accounts nor do they adequately ensure that all agencies report on such accounts and, therefore, failed to identify some omissions.
 - ✓ The state controller did not have any written procedures to ensure that all state agencies reported their outside account information for the period we reviewed.
 - ✓ The state treasurer lacked processes to ensure state agencies consistently reported outside account information.
- In response to concerns expressed to the Joint Legislative Audit Committee about such accounts, Finance, the state controller, and the state treasurer developed an action plan to ensure all state agencies comply with state law and requirements related to outside accounts.
- Although state agencies generally complied with requirements for establishing outside accounts, they did not always completely or accurately report outside accounts as required—some failed to report the balances of these accounts.
- With the exception of the California Department of Forestry and Fire Protection (Cal Fire), the state agencies we tested had established proper controls over the handling of revenue. However, Cal Fire established an outside account without statutory authority or Finance approval, circumvented its accounting and budgeting processes, and did not follow state policies for equipment purchases.

KEY RECOMMENDATIONS

In addition to recommending that the state controller and state treasurer each maintain lists of all outside accounts and annually reconcile the lists, we recommended that the three control agencies implement their recently developed policies and procedures to ensure the receipt of outside account reports and to enhance their monitoring efforts. Further, we recommended that the Legislature consider requiring that all money received as a result of cost recovery be deposited in the state treasury. We also outlined specific controls that Cal Fire should implement to safeguard revenue and purchased equipment.

Date: October 15, 2013

Report: 2013-107