



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
STATE CONTROLLER'S OFFICE
GENERAL FUND
SPECIAL DEPOSIT FUND
GIFT TAX FUND
INHERITANCE TAX FUND
UNCLAIMED PROPERTY FUND
YEAR ENDED JUNE 30, 1979**

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-441**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

441

FINANCIAL AUDIT REPORT
STATE CONTROLLER
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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ASSEMBLYMEN
S. FLOYD MORI
DANIEL BOATWRIGHT
LEROY GREENE
BRUCE NESTANDE

□ STATE CAPITOL
SACRAMENTO 95814
(916) 445-7380

□ 925 L STREET
SUITE 750
SACRAMENTO 95814
(916) 445-0255

S. FLOYD MORI
CHAIRMAN

November 21, 1980

441

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits
the Auditor General's financial audit report of the State
Controller's Office, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA;
Gus Demas; Ed Pierini; Michael R. Tritz; Teri Lyn Yee;
Don Rex, CPA; and Charles L. Edington.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the State Controller. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The State Controller is the State's elective fiscal officer. The primary objectives of the State Controller's office are (1) to provide sound fiscal control over the receipt and disbursement of public funds; (2) to report the financial operations and conditions of the state and local governments; (3) to assure that money due the State is collected; (4) to provide equitable, effective, and economical tax administration; (5) to provide fiscal assistance and guidance to local government; (6) to administer the State's unclaimed property laws; and (7) to serve as a member of fiscally oriented state boards and commissions.

The offices of the State Controller are divided into ten divisions: Administrative Services, Accounting, Disbursements, Personnel and Payroll Services, Local Government Fiscal Affairs, Unclaimed Property, Audits, Inheritance and Gift Tax, Tax Collection and Refund, and Systems Development.

The office is supported primarily by appropriations from the State's General Fund. Additional funding is received from the Motor Vehicle Fuel Account, the State School Building Aid Fund, the Aeronautics Account, and from reimbursements for services provided to other state and local agencies.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the financial statements of the various funds and the account group of the State Controller for the year ended June 30, 1979. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of the various funds and the account group of the State Controller at June 30, 1979 and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying supplemental information and the columns on the accompanying financial statements captioned "Totals - Memorandum Only" for June 30, 1979 are not necessary for a fair presentation of the financial statements but are presented as additional analytical data. The supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



WESLEY E. VOSS
Assistant Auditor General

Date: October 3, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Gus Demas
Ed Pierini
Michael R. Tritz
Teri Lyn Yee
Don Rex, CPA
Charles L. Edington

STATE CONTROLLER
 COMBINED BALANCE SHEET
 FUND TYPES AND ACCOUNT GROUP

JUNE 30, 1979

	Governmental Fund Type	Fiduciary Fund Type	Account Group	Totals
<u>ASSETS</u>	General	Agency	General Fixed Assets	(Memorandum Only)
Cash	\$ 849,322	\$ 3,375,285	\$ --	\$ 4,224,607
Investments, at cost or amortized cost (Note 2)	--	13,486,365	--	13,486,365
Receivables:				
Accounts (Note 3)	16,293	12,624,203	--	12,640,496
Allowance for deferred and uncollectible accounts (Note 3)	--	(11,766,350)	--	(11,766,350)
Loans (Note 4)	13,248,591	--	--	13,248,591
Allowance for deferred loans (Note 4)	(13,248,591)	--	--	(13,248,591)
Taxes (Note 5)	--	52,274,397	--	52,274,397
Allowance for deferred taxes (Note 5)	--	(28,191,660)	--	(28,191,660)
Due from other funds (Note 6)	1,688,222	--	--	1,688,222
Due from county governments (Note 7)	42,082	13,996,387	--	14,038,469
Expense advances to employees	61,967	--	--	61,967
Equipment	--	--	3,108,257	3,108,257
Total Assets	\$ 2,657,886	\$ 55,798,627	\$3,108,257	\$ 61,564,770
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 1,260,884	\$ 801,486	\$ --	\$ 2,062,370
Refunds payable (Note 8)	--	8,768,111	--	8,768,111
Due to other funds (Note 9)	--	31,269,884	--	31,269,884
Due to depositors (Note 10)	--	14,959,146	--	14,959,146
Total Liabilities	1,260,884	55,798,627	--	57,059,511
Encumbrances Outstanding (Note 11)	1,707,299	--	--	1,707,299
Fund Equity:				
Investment in general fixed assets	--	--	3,108,257	3,108,257
Clearing account (Note 12)	(310,297)	--	--	(310,297)
Total Fund Equity	(310,297)	--	3,108,257	2,797,960
Total Liabilities, Encumbrances Outstanding, and Fund Equity	\$ 2,657,886	\$ 55,798,627	\$3,108,257	\$ 61,564,770

The notes to the financial statements are an integral part of this statement.

STATE CONTROLLER

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Interest income	\$ 50,166
Miscellaneous revenues	<u>2,408</u>
Total Revenues	<u>52,574</u>
Expenditures:	
Current:	
Personal services	20,713,527
Operating expenses and equipment	10,315,065
Municipal court judges' salaries while on assignment to superior courts	106,178
Miscellaneous adjustments	5,866
Reimbursements	(5,543,584)
Capital outlay	<u>100,500</u>
Total Expenditures	<u>25,697,552</u>
Excess of Expenditures over Revenues	<u>(25,644,978)</u>
Other Financing Sources (Uses):	
Support appropriations	28,764,523
Repayment of senior citizen loans	1,378,296
Loans to senior citizens	(3,783,876)
Operating transfers out	<u>(960,860)</u>
Total Other Financing Sources	<u>25,398,083</u>
Excess of Expenditures and Other Uses over Revenues and Other Sources	(246,895)
Fund Equity - July 1	<u>(63,402)</u>
Fund Equity - June 30	<u>\$ (310,297)</u>

The notes to the financial statements are an integral part of this statement.

STATE CONTROLLER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the State Controller. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by both the American Institute of Certified Public Accountants and the National Council on Governmental Accounting.

The accompanying financial statements are structured into a Governmental Fund Type, a Fiduciary Fund Type, and an account group. The financial statements reflect only the State Controller's portion of the fund type categories.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most government functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Fund Types--are accounted for through governmental funds. The General Fund is the only Governmental Fund Type used by the State Controller. The General Fund includes all financial resources not accounted for in another fund. This fund is maintained on the modified accrual basis of accounting. Some of its significant elements include:

Income

Throughout the fiscal year all income including revenues, transfers, and reimbursements, except for certain reimbursements which are recorded when billed, are accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected amounts.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller's Division of Audits. At June 30, all valid expenditure commitments are accrued as expenditures, including encumbrances outstanding against budget appropriations for which no goods or services have been received.

Liabilities

Retirement Plan - Regular employees of the State Controller are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The employer and his employee contributions to PERS are actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The employer's share of retirement contributions for the year totaled \$2,697,728.

Vacation and Sick Leave

Costs of vacation and sick leave are charged when these benefits are used rather than when they are earned.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit as a trustee or as an agent for other governmental units or other funds. Included in this category are Agency Funds, which are accounted for on the modified accrual basis of accounting. These funds account for assets held in a custodial capacity (where fund assets equal fund liabilities); thus, they do not involve the measurement of operations. The State Controller administers four Agency Funds, whose functions are described below:

Gift Tax Fund

This fund serves as the depository for the proceeds of taxes imposed upon the transfer of certain property as defined by Sections 15101 through 16652 of the Revenue and Taxation Code. All proceeds, after the payment of applicable refunds for overpayment, are transferred to the General Fund.

Inheritance Tax Fund

This fund holds the proceeds of taxes imposed upon the transfer of certain property as defined by Sections 13301 through 14902 of the Revenue and Taxation Code. All proceeds, after the payment of applicable refunds for overpayment, are transferred to the General Fund.

Unclaimed Property Fund

This fund serves as the depository for unclaimed assets collected in accordance with Sections 1300 through 1615 of the Code of Civil Procedure. After successful claimants and various administrative costs have been paid, all collections are transferred to the General Fund.

Special Deposit Fund

This fund serves as the depository for money collected by the State Controller for specific purposes for which no other fund has been created. This fund accounts for certain regulatory tax collections, for savings bond deductions, and for undeliverable warrants. Collections are distributed in accordance with the purposes of the fund.

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for equipment purchases, which are recorded as expenditures in the year of acquisition. General fixed assets represent items for which financial resources have been used and for which accountability should be maintained.

2. INVESTMENTS

All investments represent assets of the Unclaimed Property Fund within the Agency Fund group. Surplus money of the Unclaimed Property Fund is invested pending determination of the true owners or their heirs. All surplus monies are invested in the State's Surplus Money Investment Fund except for \$734,365 which was invested in miscellaneous securities before the establishment of the State's Surplus Money Investment Fund. In accordance with Section 1318 of the Code of Civil Procedure, all interest received and other income derived from the investment of monies deposited in the Unclaimed Property Fund is required to be deposited in the General Fund.

3. ACCOUNTS RECEIVABLE/ALLOWANCE FOR DEFERRED AND UNCOLLECTIBLE RECEIVABLES

Of the amount included in the account, approximately \$12.6 million is due from holders of unclaimed property to the Unclaimed Property Fund. The amount due represents audit assessments against holders of unclaimed property plus penalties and interest due on this property. The assessments pertain to property that was not claimed by the owner within the time period specified by the Unclaimed Property Law. This

law requires a holder of unclaimed personal property to return the property to the State if unclaimed within seven years. Some holders are contesting these audit assessments. The amount shown as Allowance for Deferred and Uncollectible Receivables reflects the amount of contested receivables for which collection is not expected in the next fiscal year.

4. LOANS RECEIVABLE/ALLOWANCE FOR DEFERRED LOANS RECEIVABLE

This account consists of principal and interest on loans made to qualified senior citizens for paying property taxes on their principal residence. The loans are secured by a lien on the residence and must be repaid when the title of the property is transferred. Since the date of the loan collection is based upon the transfer of secured property, the amount expected to be collected in the next fiscal year cannot be reasonably estimated. Consequently, the entire amount of loans receivable is reflected in the Allowance for Deferred Loans Receivable account.

5. TAXES RECEIVABLE/ALLOWANCE FOR DEFERRED TAXES RECEIVABLE

Taxes Receivable represents inheritance and gift taxes and the related interest on delinquent amounts that have not been collected as of June 30, 1979.

Allowance for Deferred Taxes Receivable represents that portion of the June 30, 1979 balance of Taxes Receivable which is not expected to be collected in the next fiscal year.

6. DUE FROM OTHER FUNDS

This account consists of approximately \$1.7 million owed to the State Controller as reimbursement for services provided to other state agencies.

7. DUE FROM COUNTY GOVERNMENTS

County treasurers initially receive payments of all inheritance taxes. The treasurers are authorized to pay certain expenses and retain a commission from the proceeds for services performed in collecting the tax before transmitting it to the State. At June 30, 1979, the county treasurers owed the State's Inheritance Tax Fund \$13,996,387 in unremitted inheritance tax collections.

8. REFUNDS PAYABLE

This account reflects overpayments available for refunds of approximately \$8.7 million in inheritance taxes and \$47,000 in gift taxes.

9. DUE TO OTHER FUNDS

This account reflects the amount of unremitted gift, inheritance, and regulatory taxes due to the General Fund. Although the \$31,269,884 shown in this account is a receivable of the General Fund, it is not accountable for in the General Fund portion accounted for by the State Controller.

10. DUE TO DEPOSITORS

This account does not include unclaimed property funds transferred to the General Fund under Section 1564(c), Code of Civil Procedure, in the amount of \$100,184,991. This amount remains subject to claim indefinitely, but as claims are paid from current receipts, it is improbable that these funds will be transferred back to the Unclaimed Property Fund.

11. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include valid commitments against budget appropriations for which no goods or services had been received by June 30.

12. CLEARING ACCOUNT

This account is the connecting link between the books of the General Fund as shown in these statements and those central fund accounts of the State Controller for funds not accounted for entirely by one agency.

13. LEASES

Future minimum rental payments required by operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 1979 are presented below. Minimum payments do not include contingent rentals payable under certain leases. Beginning on July 1, 1980, and on each July 1 thereafter, monthly rental payments will increase or decrease based upon the Consumer Price Index for the preceding March.

Year Ending June 30:

1980	\$ 517,246
1981	447,535
1982	<u>355,085</u>
Total Minimum Payments Required	<u>\$1,319,866</u>

Rental payments for the 1978-79 fiscal year totaled \$447,306.

14. LITIGATION

The State Controller is involved in various legal proceedings. The Unclaimed Property Fund is expected to recover approximately \$10.9 million from several pending suits (for which a provision has been made in the financial statements). In addition, approximately \$3.3 million may be refunded from the Unclaimed Property Fund if appeals of prior court judgments are reversed. Other legal proceedings that involve primarily the administration of gift tax and inheritance tax laws are not expected to have any material effect on the financial statements.

SUPPLEMENTAL INFORMATION

The following financial statements are not considered necessary for a fair presentation of the State Controller's financial position and results of operations in conformity with generally accepted accounting principles but are presented as additional analytical data. The supplemental information has been subjected to the audit procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. On the supplemental financial statement--Comparison of Budgeted Expenditures with Actual Expenditures--the amounts shown as budgeted expenditures reflect the Governor's Budget after allowing for adjustments by the Budget Act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

STATE CONTROLLER
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES
 ALL AGENCY FUNDS

FOR FISCAL YEAR ENDED JUNE 30, 1979
 (PAGE 1 of 2)

	Balance July 1, 1978	Additions	Deductions	Balance June 30, 1979
<u>GIFT TAX FUND</u>				
ASSETS				
Cash	\$ 3,128,618	\$ 14,902,778	\$ 17,754,879	\$ 276,517
Taxes receivable	3,849,989	1,344,215	308,667	4,885,537
Allowance for deferred taxes receivable	<u>(3,553,585)</u>	<u>(763,087)</u>	<u>(292,215)</u>	<u>(4,024,457)</u>
Total Assets	<u>\$ 3,425,022</u>	<u>\$ 15,483,906</u>	<u>\$ 17,771,331</u>	<u>\$ 1,137,597</u>
LIABILITIES				
Refunds payable	\$ 16,452	\$ 432,982	\$ 402,658	\$ 46,776
Due to other funds	<u>3,408,570</u>	<u>15,029,194</u>	<u>17,346,943</u>	<u>1,090,821</u>
Total Liabilities	<u>\$ 3,425,022</u>	<u>\$ 15,462,176</u>	<u>\$ 17,749,601</u>	<u>\$ 1,137,597</u>
<u>INHERITANCE TAX FUND</u>				
ASSETS				
Cash	\$ 3,906,736	\$ 405,803,430	\$ 409,600,046	\$ 110,120
Taxes receivable	32,978,538	421,524,835	407,114,513	47,388,860
Allowance for deferred taxes receivable	<u>(15,712,693)</u>	<u>(414,152,876)</u>	<u>(405,698,366)</u>	<u>(24,167,203)</u>
Due from county governments	<u>10,632,662</u>	<u>409,062,091</u>	<u>405,698,366</u>	<u>13,996,387</u>
Total Assets	<u>\$ 31,805,243</u>	<u>\$ 822,237,480</u>	<u>\$ 816,714,559</u>	<u>\$ 37,328,164</u>
LIABILITIES				
Refunds payable	\$ 4,147,744	\$ 14,844,963	\$ 10,271,372	\$ 8,721,335
Due to other funds	<u>27,657,499</u>	<u>402,248,014</u>	<u>401,298,684</u>	<u>28,606,829</u>
Total Liabilities	<u>\$ 31,805,243</u>	<u>\$ 417,092,977</u>	<u>\$ 411,570,056</u>	<u>\$ 37,328,164</u>
<u>SPECIAL DEPOSIT FUND</u>				
ASSETS				
Cash	<u>\$ 1,032,324</u>	<u>\$ 29,835,945</u>	<u>\$ 28,399,754</u>	<u>\$ 2,468,515</u>
LIABILITIES				
Accounts payable	\$ 754,762	\$ 24,226,062	\$ 24,179,338	\$ 801,486
Due to other funds	45,848	19,385,784	17,891,560	1,540,072
Due to depositors	<u>231,714</u>	<u>10,425,233</u>	<u>10,529,990</u>	<u>126,957</u>
Total Liabilities	<u>\$ 1,032,324</u>	<u>\$ 54,037,079</u>	<u>\$ 52,600,888</u>	<u>\$ 2,468,515</u>

STATE CONTROLLER
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES
 ALL AGENCY FUNDS

FOR FISCAL YEAR ENDED JUNE 30, 1979
 (PAGE 2 of 2)

	<u>Balance</u> <u>July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1979</u>
<u>UNCLAIMED PROPERTY FUND</u>				
ASSETS				
Cash	\$ 644,974	\$ 58,427,720	\$ 58,552,561	\$ 520,133
Investments	16,803,119	23,902,377	27,219,131	13,486,365
Accounts receivable	14,117,607	1,731,132	3,224,536	12,624,203
Allowance for deferred and uncollectible accounts receivable	<u>(13,240,837)</u>	<u>(856,633)</u>	<u>(2,331,120)</u>	<u>(11,766,350)</u>
Total Assets	<u>\$ 18,324,863</u>	<u>\$ 83,204,596</u>	<u>\$ 86,665,108</u>	<u>\$ 14,864,351</u>
LIABILITIES				
Due to other funds	564	61,170	29,572	32,162
Due to depositors	<u>\$ 18,324,299</u>	<u>\$ 3,434,940</u>	<u>\$ 6,927,050</u>	<u>\$ 14,832,189</u>
Total Liabilities	<u>\$ 18,324,863</u>	<u>\$ 3,496,110</u>	<u>\$ 6,956,622</u>	<u>\$ 14,864,351</u>
 <u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 8,712,652	\$ 508,969,873	\$ 514,307,240	\$ 3,375,285
Investments	16,803,119	23,902,377	27,219,131	13,486,365
Accounts receivable	14,117,607	1,731,132	3,224,536	12,624,203
Allowance for deferred and uncollectible accounts receivable	<u>(13,240,837)</u>	<u>(856,633)</u>	<u>(2,331,120)</u>	<u>(11,766,350)</u>
Taxes receivable	36,828,527	422,869,050	407,423,180	52,274,397
Allowance for deferred taxes receivable	<u>(19,266,278)</u>	<u>(414,915,963)</u>	<u>(405,990,581)</u>	<u>(28,191,660)</u>
Due from county governments	<u>10,632,662</u>	<u>409,062,091</u>	<u>405,698,366</u>	<u>13,996,387</u>
Total Assets	<u>\$ 54,587,452</u>	<u>\$ 950,761,927</u>	<u>\$ 949,550,752</u>	<u>\$ 55,798,627</u>
LIABILITIES				
Accounts payable	\$ 754,762	\$ 24,226,062	\$ 24,179,338	\$ 801,486
Refunds payable	4,164,196	15,277,945	10,674,030	8,768,111
Due to other funds	31,112,481	436,724,162	436,566,759	31,269,884
Due to depositors	<u>18,556,013</u>	<u>13,860,173</u>	<u>17,457,040</u>	<u>14,959,146</u>
Total Liabilities	<u>\$ 54,587,452</u>	<u>\$ 490,088,342</u>	<u>\$ 488,877,167</u>	<u>\$ 55,798,627</u>

STATE CONTROLLER

COMPARISON OF BUDGETED EXPENDITURES
WITH ACTUAL EXPENDITURES
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as adjusted</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Expenditures:			
Current:			
Personal services	\$21,107,684	\$20,713,527	\$ 394,157
Operating expenses and equipment	10,367,850	10,315,065	52,785
Municipal court judges' salaries while on assignment to superior court	300,000	106,178	193,822
Miscellaneous adjustments	--	5,866	(5,866)
Reimbursements	(5,787,939)	(5,543,584)	(244,355)
Capital outlay	<u>100,500</u>	<u>100,500</u>	<u>--</u>
Total Expenditures	<u>\$26,088,095</u>	<u>\$25,697,552</u>	<u>\$ 390,543</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the accounting procedures and the related system of internal accounting control to the extent that we considered necessary to properly form an opinion concerning the fairness with which the State Controller's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the State Controller in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The State Controller generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps