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California Legislature



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November 14, 1977

Letter Report 303

Honorable Louis J. Papan, Chairman
Rules Committee
Room 3152, State Capitol
Sacramento, California 95814

Dear Assemblyman Papan:

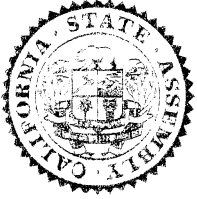
Your Joint Legislative Audit Committee respectfully forwards the Auditor General's letter report on the Cost Accounting and Billing System of the Office of State Printing.

The auditors are Harold L. Turner, Audit Manager; Ross A. Luna; Robert M. Neves and Eugene T. Potter.

Sincerely,

MIKE CULLEN
Chairman

cc: Speaker of the Assembly
President pro Tempore of the Senate
Members of the Joint Legislative Audit Committee



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November 8, 1977

Letter Report 303

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
Room 5144, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a legislative request, we have examined the cost accounting and billing system in the Office of State Printing (OSP). This examination was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Department of General Services is responsible for the administration and management of the OSP; however, operations are under direct control of the State Printer, who is appointed by the Governor. The OSP provides printing services to the Legislature and all other state agencies except the University of California. The OSP prints bills, journals, histories, files, indexes, chapters and other publications necessary to conduct the business of the Legislature.

Based upon our review of the cost allocation system and billing procedures of OSP, we believe that with the exception of certain depreciation overcharges, the cost allocation methods for services performed are equitable for the legislative biennial year ended December 31, 1976.

Our review of the cost allocation system included direct costs, indirect costs, and overhead allocation. In addition, we reviewed the legislative billing system of the Office of State Printing.

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
November 8, 1977
Page 2

Asset Depreciation Overcharges

Our review of OSP records disclosed variations in costing and billing resulting from asset depreciation overcharges. We identified \$370,000 excess depreciation on major equipment items in the pressroom department's cost centers which we examined. Overcharges may also have been made in other departments and other cost centers not included in our tests. The depreciation overcharges have accumulated over several years and are minimal in relation to total costs incurred and billed during the same period; however, the Department of General Services (DGS) should review the depreciation rates in all departments and make the necessary adjustments in the depreciation accounts.

The depreciation overcharges were caused by inadequate depreciation records and the DGS failure to properly account for fully depreciated equipment. As a result of the depreciation overcharges, the Legislature and other state agencies were overbilled at least \$370,000.

The DGS neither keeps track of the fully depreciated equipment used at the printing plant nor maintains net depreciated values of the individual equipment in each cost center. The failure to keep and maintain adequate depreciation records resulted in excessive depreciation charges for fully depreciated assets, thereby distorting depreciation charges. Since the DGS periodically prepares the computer printout of the Property and Equipment Title Report, the printout should be expanded to include data on fully depreciated assets and net depreciated values of each asset in the cost centers.

According to responsible DGS accounting personnel, prior to 1973 the state printing plant depreciation rates were subjected to annual review and were updated every third year to conform with Internal Revenue Service Revenue Procedures 62-21, Publication No. 456. The OSP asset depreciation rates have not been reviewed or updated since 1973-74.

Recommendations to Resolve Depreciation Deficiencies

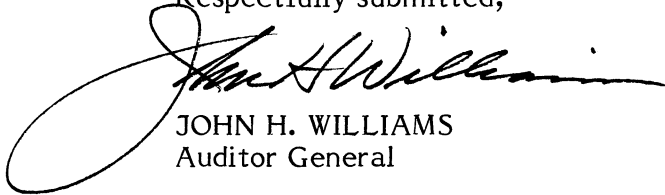
We recommend that the Department of General Services:

- Conduct an annual review of the printing plant and equipment depreciation rates and revise the rates, if necessary, to keep the asset group service lives current and realistic for depreciation purposes

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
November 8, 1977
Page 3

- Determine the total amount of depreciation overcharges, correct the depreciation accounts and make necessary adjustments to the cost center rates of the state printing plant
- Expand its computer printout of the Property and Equipment Title Report to include data on fully depreciated assets and net depreciated values of each asset of the state printing plant.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Staff: Harold L. Turner, Audit Manager
Ross A. Luna
Robert M. Neves
Eugene T. Potter

Attachment: Response to the Auditor General's Report

OFFICE OF STATE PRINTING

NORTH 7TH STREET AND RICHARDS BLVD.
SACRAMENTO

November 3, 1977

Mr. John H. Williams
Auditor General
California Legislature
State Capitol
Sacramento, CA. 95814

Report 303

Dear Mr. Williams:


We are pleased that your Letter Report 303 found that, with the exception of certain depreciation overcharges, the cost allocation methods for services performed for the Legislature in the biennial year ended December 31, 1976 are equitable.

Your staff's recommendations will be discussed in some depth and procedures will be adopted to correct any deficiencies found in the application of approved accounting procedures.

We already have taken steps to reverse some of the practices begun in 1972 when accounting and property recording procedures were centralized in the Department in the interest of economy. By the end of this fiscal year I will again be responsible for and will assure appropriate annual reviews of depreciation schedules.

The assistance of your staff in pointing up these areas is appreciated.

Sincerely,



Vincent J. Toolan
State Printer

cc: David E. Janssen
Julian Camacho
Ed Corr