chair John Chiang
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State of California
Franchise Tax Board

05.13.09
To: Ellen De Angelis, Manager
Los Angeles Field Office
Field and Complex Account Collection Bureau

From: Philip Yu

Field Office Cash Audit Review- Los Angeles

Memorandum

We completed our review of the field office cash audit of Los Angeles for fiscal year 2005/2006, performed by Internal Audit designee Carolyn Vershum, Senior Compliance Representative. This report presents the results of our review.

Background

The Field and Complex Account Collection Bureau conducts Field Office Cash Audit Reviews to meet the requirements of the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This responsibility includes documenting internal controls, communicating control requirements to employees, and assuring that internal controls are functioning as prescribed and are appropriately modified for changes in conditions. The requirements of FISMA have been incorporated into the State Administrative Manual (SAM) Section 20060.

Prior to fiscal year 1998/1999, the Internal Audit Section conducted the Field Office Cash Audit Reviews. However, to save travel costs and maximize Internal Audit's limited resources, the responsibility for conducting the Field Office Cash Audit Reviews was assigned to the Field and Complex Account Collection Bureau beginning with fiscal year 1999/2000. Internal Audit Section's role was revised to review the field office cash audit and evaluate internal controls based on the work performed.

The field portion of the Field and Complex Account Collection Bureau is made up of three Regions: Northern, Los Angeles and Southern Regions. Within the three regions, there are a total of six Public Service Field Offices

Region	Field Office(s)	Manager
Northern	Oakland Sacramento San Francisco	Laureen Philipp
Los Angeles	Los Angeles	Ellen DeAngelis
Southern	Santa Ana San Diego	Jacqueline Hudson

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The field offices administer multiple programs including public counter assistance, desk collections, field collections, and serving as a liaison between central office staff and the taxpayer.

Audit Objective

The objective of this audit was to review the Los Angeles Office Cash Audit Reports to:

- Ensure the findings and responses are reasonable and appropriate.
- Determine if there were any recurring findings from prior audits.
- Verify the proposed corrective actions address the findings and strengthen internal controls.

Scope

The scope of this audit includes the review of audit reports and working papers that include activities from June 2005 through July 2006.

Results

The following is a summary of the findings, recommendations and corrective actions for the Los Angeles Field Office.

Finding-#1 (LA) Los Angeles Field Office
Status-New

The same employee is performing the duties of cashiering and inputting transactions on the taxpayers account.

Recommendation made to Los Angeles Field Office by Internal Audit Designee

Leads and cashiers should be made aware of established procedures pertaining to cashiering and proper Separation of Duties located in SAM 8080. SAM 8080 that states in part "in order to maintain an adequate separation of duties no one person should perform multiple cashiering tasks. Cashiering duties include, but are not limited to receiving and depositing remittances, inputting receipt information, reconciling input to output."

Corrective Action proposed by the Los Angeles Field Office

Leads and cashiers have been advised of the correct procedures relating to the cashiering process and the separation of duties. A copy of SAM 8080 has been distributed to the cashiers and leads establishing the correct procedures. In the meeting with the cashier's the possible effects of not adhering to policy was discussed. The possibility of fraud was also included in our discussion. Effective immediately, the Public Service staff will have two (2) cashiers available at all times. In the event that there is no cashier available, one of the leads will transfer a cashier's box and process the payment.

Finding-#1 (LA) Los Angeles Field Office (Continued)

Internal Audit's Response to Corrective Action

We feel that the proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Finding-#2 (LA) Los Angeles Field Office
Status-New
Cash transfers were not properly documented.

Recommendation made to Los Angeles Field Office by Internal Audit Designee

Cashiers should be reminded of the importance of Field Receiving Manual (FRM) 20090, which states, "that a transfer receipt must always be used when cash is transferred between employees. This includes the transfer of monies collected by one cashier and transferred to the cashier preparing the daily cashier report and deposit. In addition, the lead should review the daily cashier report to ensure proper procedures are being followed.

Corrective Action proposed by the Los Angeles Field Office

Leads and cashiers have been reminded that all transfers of cash between employees should be properly documented. Cash is to be transferred at the end of the day to the cashier preparing the daily cashier report and deposit. It has been reiterated that the proper signatures are required for cash transfers. A copy of FRM 20090 has been distributed to each employee emphasizing a transfer receipt must always be used when cash is transferred between employees. This includes the transfer of monies collected by one cashier and transferred to the cashier preparing the daily cashier report and deposit.

Effective immediately our head cashier and public counter lead person have been instructed to conduct a thorough daily review of all cashiering documents to ensure that they are properly prepared.

Internal Audit's Response to Corrective Action

We feel that their proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Finding-#3 (LA) Los Angeles Field Office
Status-New

Cashiers altered cash receipts (form 6355) instead of voiding and creating error-free receipts.

Recommendation made to Los Angeles Field Office by Internal Audit Designee

All cashiers should be made aware of the proper procedures for preparing cash receipts. This is particularly important for those new employees with no prior cashiering experience or those who do not cashier on a regular basis. The cashiers should be directed to FRM 20040 for specific instructions on how to complete form 6355. In addition, thorough review of the completed 6355 should be performed when the daily cash deposit is prepared. Supervisors and Leads with limited experience in cashiering procedures should refer to FRM section 40010 for a helpful and informative Supervisor's Review Checklist.

Corrective Action proposed by the Los Angeles Field Office

All cashiers have been advised of the proper procedures for preparing cash receipts. It is particularly important to stress these procedures to the Back-up Cashiers who do not cashier on a regular basis. These cashiers were redirected to FRM 20040 for specific instructions on how to complete form 6355. Cashiers were reminded of the causes and effects of preparing receipts with errors.

Effectively immediately, the head cashier and the leads will review receipts daily for errors and/or strikeovers.

Internal Audit's Response to Corrective Action

We feel that their proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Conclusion

All findings are new and there are no recurring findings, we feel that Los Angeles Field Office's proposed corrective action adequately addresses cash processing procedures. Internal Audit has no further recommendations. We encourage management to continuously monitor the implemented corrective actions to ensure compliance with processes and procedures.

Internal Audit Management has decided to suspend the fiscal year 2006/2007 Field Office Cash Audit and any further field audits pending the outcome of our enterprise based risk analysis. We greatly appreciate the cooperation and assistance provided by your Field Office staff. Please contact Carla Terrell at (916) 845-3386 if you have any questions regarding this report.

Philip Yu
Internal Audit Bureau Director

cc: S. Stanislaus
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State of California
Franchise Tax Board

05.13.09
To: Laureen Philipp, Manager
Northern Region Field Offices
Field and Complex Account Collection Bureau

From: Philip Yu

Field Office Cash Audit Review – Oakland, Sacramento, and San Francisco

Memorandum

We completed our review of the field office cash audit of Oakland, Sacramento and San Francisco for fiscal year 2005/2006, performed by Internal Audit designee Carolyn Vershum, Senior Compliance Representative. This report presents the results of our review.

Background

The Field and Complex Account Collection Bureau conducts Field Office Cash Audit Reviews to meet the requirements of the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This responsibility includes documenting internal controls, communicating control requirements to employees, and assuring that internal controls are functioning as prescribed and are appropriately modified for changes in conditions. The requirements of FISMA have been incorporated into the State Administrative Manual (SAM) Section 20060.

Prior to fiscal year 1998/1999, the Internal Audit Section conducted the Field Office Cash Audit Reviews. However, to save travel costs and maximize Internal Audit's limited resources, the responsibility for conducting the Field Office Cash Audit Reviews was assigned to the Field and Complex Account Collection Bureau beginning with fiscal year 1999/2000. Internal Audit Section's role was revised to review the field office cash audit and evaluate internal controls based on the work performed.

The field portion of the Field and Complex Account Collection Bureau is made up of three Regions: Northern, Los Angeles and Southern Regions. Within the three regions, there are a total of six Public Service Field Offices.

Region	Field Office(s)	Manager
Northern	Oakland Sacramento San Francisco	Laureen Philipp
Los Angeles	Los Angeles	Ellen DeAngelis
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The field offices administer multiple programs including public counter assistance, desk collections, field collections, and serving as a liaison between central office staff and the taxpayer.

Audit Objective

The objective of this audit was to review the Northern Region Field Office Cash Audit Reports to:

- Ensure the findings and responses are reasonable and appropriate.
- Determine if there were any recurring findings from prior audits.
- Verify the proposed corrective actions address the findings and strengthen internal controls.

Scope

The scope of this audit includes the review of audit reports and working papers that include activities from June 2005 through July 2006.

Results

The following is a summary of the findings, recommendations and corrective actions for each Northern Region Field Office.

Finding-#1 (SAC) Sacramento Field Office
Status-Recurring

Cashiers altered cash receipts (FTB 6355) instead of voiding and creating error-free receipts.

Recommendation made to Sacramento Field Office by Internal Audit Designee

All cashiers should review Field Receiving Manual (FRM) Section 20040 for applicable rules on completing Receipt for Cash Paid (FTB 6355).

Corrective Action proposed by the Sacramento Field Office

The manager and lead met with the cashiers to ensure they understood the importance of exercising due diligence in preparing all cashiering documents. They will also perform daily reviews on reports, which include cashiering documents, for consistency in completion and correctness, in accordance with the Field Receiving Manual.

Finding-#1 (SAC) Sacramento Field Office (Continued)

Internal Audit's Response to Corrective Action

Since this is a recurring finding, Internal Audit would like to make two additional recommendations:

1. Post reminders in the cashier's booth instructing the cashier to void the receipt if an error is made and start a new error- free receipt for cash payments.
2. Conduct quarterly reviews of a sample of receipts from all cashiers, if there are alterations in the sample, meet with the cashiers who made the alterations and explain the procedures by showing them what to do.

Finding #1 (OAK) Oakland Field Office
Status-Recurring
Cashiers altered cash receipts (FTB 6355) instead of voiding and creating error-free receipts.

Recommendations made to Oakland Field Office by Internal Audit Designee

All cashiers should be made aware of the proper procedures for preparing cash receipts. This is particularly important for new employees with no prior cashiering experience or those who do not cashier on a regular basis. The cashiers should be directed to FRM 20040 for specific instructions on how to complete form 6355. In addition, thorough review of the completed 6355 should be performed when the daily cash deposit is prepared. Supervisors and Leads with limited experience in cashiering procedures should refer to FRM section 40010 for the helpful and informative Supervisor's Review Checklist

Corrective Action proposed by the Oakland Field Office

The Manager met with all cashiers to reiterate that due diligence must be used when preparing all cashiering documents. In the event errors are made, it was also stressed that receipts must be voided properly and timely.

Internal Audit's Response to Corrective Action

Since this is a recurring finding, Internal Audit would like to make two additional recommendations:

1. Post reminders in the cashier's booth instructing the cashier to void the receipt if an error is made and start a new error- free receipt for cash payments.

2. Conduct quarterly reviews of a sample of receipts from all cashiers, if there are alterations in the sample, meet with the cashiers who made the alterations and explain the procedures by showing them what to do.

You agreed with our additional recommendation and have communicated this with your field office management team.

Finding #2 (OAK) Oakland Field Office
Status-Recurring
Cashier did not count change back up to the amount collected.

Recommendation made to Oakland Field Office by Internal Audit Designee

All staff involved in the cashiering functions should be referred to the Field Receiving Manual Section 20040, which outlines exactly how to disburse cash at the counter.

Corrective Action proposed by the Oakland Field Office

The manager met with the cashiers to revisit the proper way to count change back to customers.

Internal Audit's Response to Corrective Action

The corrective action indicated by the Oakland Field Office is acceptable.

Finding #3 (OAK) Oakland Field Office
Status-New
Confidential information was not properly stored and secured during non-working hours. A laptop computer was left unsecured on top of a desk and confidential information was in an unlocked drawer.

Recommendations made to Oakland Field Office by Internal Audit Designee

Staff should be reminded of the importance of securing confidential information as well as laptop computers, which could also contain confidential information. Periodic checks should be made by supervisors to ensure staff is adhering to required procedures.

Corrective Action proposed by the Oakland Field Office

Oakland Field Office did not indicate any corrective action.

Internal Audit's Corrective Action Recommendation

Internal Audit recommends that some corrective action be taken by management to address the laptop and confidential data issue with staff as a preventive measure against internal theft. The supervisor should remind staff of the importance of securing confidential information and laptops as well as make periodic security checks.

You agreed with our additional recommendation and have communicated this with your field office management team.

Finding #1 (SF) San Francisco Field Office
Status-New
Cashiers altered cash receipts (FTB 6355) instead of voiding and creating error-free receipts. Cashiers did not fill out receipts completely.

Finding #1 (SF) San Francisco Field Office (Continued)

Recommendations made to San Francisco Field Office by Internal Audit Designee

All cashiers should be made aware of the proper procedures for preparing cash receipts. This is particularly important for those new employees with no prior cashiering experience or those who do not cashier on a regular basis. The cashiers should be directed to FRM 20040 for specific instructions on how to complete form 6355. In addition, a thorough review of the completed 6355 should be performed when the daily cash deposit is prepared. Supervisors and leads with limited experience in cashiering procedures should refer to FRM section 40010 for the helpful and informative Supervisor's Review Checklist.

Corrective Action proposed by the San Francisco Field Office

The Manager met with the cashiering staff in San Francisco Field Office to ensure they exercise due diligence when preparing the cashiering documents and they make sure that they understand the importance of completing all forms accurately, specifically the Receipts for Cash Paid (FTB 6355). In addition, quarterly reviews of the cashiering documents will continue to ensure the forms are correctly prepared in accordance with the Field Receiving Manual.

Internal Audit's Response to Corrective Action

The corrective action indicated by the San Francisco Field Office is acceptable.

Finding #2 (SF) San Francisco Field Office
Status-Recurring
The supervisor did not review the bank deposit receipt after a large check ($925,785) was deposited.

Recommendations made to San Francisco Field Office by Internal Audit Designee

The supervisor should exercise more diligence in reviewing bank deposits receipts. The supervisor should also review the Field Receiving Manual Section 20110.

Corrective Action proposed by the San Francisco Field Office

The supervisor and the supervisor's designees responsible for cashiering functions will exercise more due diligence by reviewing bank deposit receipts to ensure the full amount of the deposit is intact. In addition, the supervisor and the lead will refer to the Field Receiving Manual sections 10140 and 20110 and the SAM 8032.3 and will be more careful when reviewing cashiering documents.

In addition to directing staff to follow applicable policies and procedures, the San Francisco Supervisor and lead will address these issues with staff periodically throughout the year to ensure the correct procedures are followed.

The San Francisco Field Office Management did not have an opportunity to respond prior to March 10, 2009 because this finding was documented in the Appointed Auditor's work papers but left out of the report in error. The former manager during the audit period wrote the response to the finding.

Finding #2 (SF) San Francisco Field Office (Continued)

Internal Audit's Response to Corrective Action

The majority of large check payments are Personal Income Tax payments. There was only one large payment from a business for the entire year. There was a recent change and effective January 1, 2009; PIT payments over $20,000 are required to be paid electronically according to the California Revenue and Taxation Code Section 19011.5. This should cause a reduction in the number of large payments received by the field offices. This is a recurring finding from the previous audit, so the previous corrective action was unsuccessful, however, the risk will be minimized by the reduction in large payments coming into the field office in the future. Therefore, the corrective action indicated by the San Francisco Field Office is acceptable.

Conclusion

The prevalent finding is that cashiers are not producing error-free receipts, because they are not voiding the receipt and starting a new one when they make errors. Since this finding is common for all of the offices, we have developed additional recommendations to prevent it from recurring. We encourage management to continuously monitor the implemented corrective actions to ensure compliance with processes and procedures.

Internal Audit Management has decided to suspend the fiscal year 2006/2007 Field Office Cash Audit and any further field audits pending the outcome of our enterprise based risk analysis. We greatly appreciate the cooperation and assistance provided by your Field Office staff. Please contact Carla Terrell at (916) 845-3386 if you have any questions regarding this report.

Philip Yu
Internal Audit Bureau Director

cc: S. Stanislaus
L. Iwafuchi
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State of California
Franchise Tax Board

05.13.09
To: Jacqueline Hudson, Manager
Southern Region Field Offices
Field and Complex Account Collection Bureau

From: Philip Yu

Field Office Cash Audit Review - Santa Ana and San Diego

Memorandum

We completed our review of the field office cash audit of Santa Ana and San Diego for fiscal year 2005/2006, performed by Internal Audit designee Carolyn Vershum, Senior Compliance Representative. This report presents the results of our review.

Background

The Field and Complex Account Collection Bureau conducts Field Office Cash Audit Reviews to meet the requirements of the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This responsibility includes documenting internal controls, communicating control requirements to employees, and assuring that internal controls are functioning as prescribed and are appropriately modified for changes in conditions. The requirements of FISMA have been incorporated into the State Administrative Manual (SAM) Section 20060.

Prior to fiscal year 1998/1999, the Internal Audit Section conducted the Field Office Cash Audit Reviews. However, to save travel costs and maximize Internal Audit's limited resources, the responsibility for conducting the Field Office Cash Audit Reviews was assigned to the Field and Complex Account Collection Bureau beginning with fiscal year 1999/2000. Internal Audit Section's role was revised to review the field office cash audit and evaluate internal controls based on the work performed.

The field portion of the Field and Complex Account Collection Bureau is made up of three Regions: Northern, Los Angeles and Southern Regions. Within the three regions, there are a total of six Public Service Field Offices.

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The field offices administer multiple programs including public counter assistance, desk collections, field collections, and serving as a liaison between central office staff and the taxpayer.

Audit Objective

The objective of this audit was to review the Southern Region Field Office Cash Audit Reports to:

- Ensure the findings and responses are reasonable and appropriate.
- Determine if there were any recurring findings from prior audits.
- Verify that the proposed corrective actions address the findings and strengthen internal controls.

Scope

The scope of this audit includes the review of audit reports and working papers that include activities from June 2005 through July 2006.

Results

The following is a summary of the findings, recommendations and corrective actions for each Southern Region Field Office.

Finding-#1 (SA) Santa Ana Field Office
Status-New

Confidential information on staff's computer monitors was visible to the public.

Recommendation made to Santa Ana Field Office by Internal Audit Designee

The Santa Ana office will be remodeled which will remedy the problem permanently but until then it was recommended that they position their screen so that it would not be visible to the public.

Corrective Action proposed by the Santa Ana Field Office

All of the monitors were repositioned so they were no longer visible to the public.

Internal Audit's Response to Corrective Action

We feel that their proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Finding-#2 (SA) Santa Ana Field Office
Status-New
Confidential information was not properly stored and secured during non-working hours. Confidential information was in an open drawer.

Recommendation made to Santa Ana Field Office by Internal Audit Designee

Staff should be reminded of the importance of securing confidential information. Periodic checks should be made by supervisors to ensure staff is adhering to required procedures.

Corrective Action proposed by the Santa Ana Field Office

The individual who left the confidential information out was counseled. The manager sent out reminders to the staff explaining that confidential material should be locked up over-night. Periodic checks will also be performed to ensure that confidential material is properly stored.

Internal Audit's Response to Corrective Action

We feel that their proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Finding-#3 (SA) Santa Ana Field Office
Status-New
Santa Ana Field Office does not maintain copies of the security incident reports sent to Security Services Section.

Recommendation made to Santa Ana Field Office by Internal Audit Designee

It is recommended that a centrally located file be established for storing and securing future incident reports.

Corrective Action proposed by the Santa Ana Field Office

A hard copy file for incident reports has been created in the Administrative file area. Additionally, FTB security was called to obtain a copy of the outstanding incident report.

Internal Audit's Response to Corrective Action

We feel that their proposed corrective action adequately addresses the finding. Internal audit has no further recommendations.

Finding #1 (SD) San Diego Field Office
Status-Recurring

Transfer receipts (FTB 6995) were not prepared for transfers of cash between the counter cashier and cashier preparing the daily deposit.

Recommendations made to San Diego Field Office by Internal Audit Designee

All cashiers should be made aware of the proper procedures for transferring and documenting the transfer of cash. Field Receiving Manual 20090 states that a transfer receipt must always be used when cash is transferred.

FTB 6995 should be used on a daily basis whenever cashiers transfer the monies collected at their counter window to the cashier who makes the cashier's daily report and prepares the cash for deposit.

Corrective Action proposed by the San Diego Field Office

The manager gave all the cashiers written instructions on proper procedures for transferring cash. A lead will also review the daily cashier report to ensure that it is handled properly.

Internal Audit's Response to Corrective Action

This is a recurring finding in the prior audit for fiscal year 2004/2005. Management's response indicated that the lead would review the daily cashier report to ensure proper procedures were followed. During the fiscal year 2005/2006 audits, the lead and cashier indicated to Ms. Vershum that they were unaware of the procedures; therefore Internal Audit would like to make an additional recommendation.

The supervisor should review the procedures and perform a quarterly review of a sample of daily cashier reports and FTB 6995 transfer documents. This is in addition to the review by the leads to ensure procedures are being followed. If the transfer documents are not completed in the sample, the supervisor should review the procedures with the staff.

You agreed with our additional recommendation and have communicated this with your Counter and Support Staff Manager.

Finding #2 (SD) San Diego Field Office
Status-Recurring
Confidential information was not properly stored and secured during non-working hours. Confidential information was in an unlocked drawer.

Recommendations made to San Diego Field Office by Internal Audit Designee

Staff should be reminded of the importance of securing confidential information. Periodic checks should be made by supervisors to ensure staff is adhering to required procedures.

Corrective Action proposed by the San Diego Field Office

The manager reminded the staff that confidential material should be locked up over-night and to make sure that confidential information is removed from the fax and printers. Periodic checks will be performed to ensure that confidential material is properly stored.

Internal Audit's Response to Corrective Action

This is a recurring finding, and the response to the prior audit indicated that the periodic reviews would be done, which is not working. Therefore, Internal Audit recommends that the supervisor schedule quarterly reviews until the problem is corrected.

You agreed with our additional recommendation and have communicated this with your Counter and Support Staff Manager.

Conclusion

The most prevalent finding for the Southern field offices was that confidential information was not properly secured. Both offices need to exercise more diligence in protecting confidential information. There was no evidence of posting errors found during the audit. Taxpayers' payments were applied to their accounts. We encourage management to continuously monitor the implemented corrective actions to ensure compliance with procedures.

Internal Audit management has decided to suspend the fiscal year 2006/2007 Field Office Cash Audit and any further field audits pending the outcome of our enterprise based risk analysis. We greatly appreciate the cooperation and assistance provided by your field office staff. Please contact Carla Terrell at (916) 845-3386 if you have any questions regarding this report.

Philip Yu
Internal Audit Bureau Director

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