



BETTY T. YEE
California State Controller

March 18, 2019

Members of Joint Legislative Budget Committee
Members of Senate Committee on Budget and Fiscal Review
Members of Assembly Committee on Budget

SUBJECT: Required State Financial Reports and Related Effects of FISCal

Dear Members:

As California's chief fiscal officer entrusted with superintending the fiscal affairs of the state, I am responsible for compiling many essential financial documents including the Comprehensive Annual Financial Report (CAFR) and the Monthly Cash Report. Last week, some people expressed confusion when the numbers in my Monthly Cash Report and the Department of Finance (DOF) Finance Bulletin differed, as the numbers always do. I want to take the opportunity to explain the difference and draw your attention to a significant and growing problem the state government is facing.

Provision 5 of the California Budget Act requires the State Controller's Office (SCO) to report the Statement of General Fund Cash Receipts and Disbursements (commonly called the Monthly Cash Report) within 10 days after the close of each month to the Legislature's budget and fiscal committees, DOF, the State Treasurer, and the Legislative Analyst. The Monthly Cash Report is based on the money actually deposited into the State Treasury by the last day of the month. The DOF Finance Bulletin (typically released soon after the Monthly Cash Report) reflects funds that state agencies say they received but may not yet have deposited into the State Treasury. As the discrepancy in the numbers usually is attributed to the one- to five-day lag in time between an agency's receipt of the money and the agency's deposit of the money, the fact that the numbers differ every month is not a surprise. However, the growing difference in the two sets of numbers compels me to call attention to a much more concerning issue.

As some of you are aware, my team has encountered numerous challenges with the Financial Information System for California (FISCal), especially since the FISCal Department last year decided on a new approach to implement the remaining SCO control functionality. This integrated solution attempts to join components of FISCal with the SCO legacy system.

As soon as the integrated solution was implemented in October, SCO had problems getting the interfaces to work. Other departments struggled to correctly code remittances, large transaction volumes overwhelmed the system, and there were countless complications with items being improperly sent to SCO cash management staff. As a result, I no longer have confidence in the

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accuracy of the revenue figures that are submitted into the SCO legacy system, which in turn are used to create the Monthly Cash Report and serve as the state's official book of record.

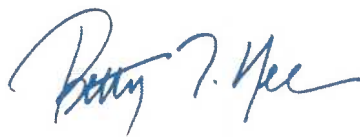
A larger problem looms beyond the issues with the monthly cash: the state's CAFR, which my team publishes late April. I am gravely concerned the 154 departments currently on FI\$Cal will not have the ability to provide SCO with accurate financial statements at the end of the 2018-19 fiscal year.

As the State Auditor has noted on several occasions, several departments' inability to provide accurate and timely year-end financial information could increase the risk of the state producing a late CAFR. If departments are forced to submit estimates to SCO, that increases the risk that the CAFR could receive a modified opinion from auditors. A modified opinion indicates that material accounting misstatements may have been used to construct the CAFR, thereby eroding stakeholder and investor confidence in the state's financial condition and potentially affecting the state's borrowing costs.

It is time to stop letting the calendar dictate the speed at which the FI\$Cal project moves forward. We need to pause and direct resources to making FI\$Cal work as it was intended to work. Continuing to push ahead by adding features that do not work or bringing more departments onto the troubled system will cost taxpayers exponentially more in the long run.

I continue to be committed to the success of FI\$Cal, and I look forward to discussing effective alternatives to ensure it will fully function as an efficient statewide accounting, budget, cash management, and procurement system.

Sincerely,

A handwritten signature in blue ink, appearing to read "Betty T. Yee".

BETTY T. YEE

cc: The Honorable Fiona Ma, California State Treasurer
Keely M. Bosler, Director, California Department of Finance
Richard Gillihan, Chief Operating Officer, California Department of Finance
Daniel C. Kim, Director, California Department of General Services
Elaine Howle, California State Auditor
Gabriel Petek, California Legislative Analyst
Miriam Barcellona Ingenito, Director, Financial Information System for California
Neeraj Chauhan, Chief Deputy Director, Financial Information System for California