

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

734

CASH MANAGEMENT OF THE  
HEALTH CARE DEPOSIT FUND

MARCH 1978



# Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

## California Legislature



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March 23, 1978

734

The Honorable Albert S. Rodda  
Chairman, Senate Finance Committee  
Room 5052, State Capitol  
Sacramento, California 95814

Dear Mr. Chairman:

The Joint Legislative Audit Committee is pleased to forward the Auditor General's report on the cash management of the Health Care Deposit Fund.

The auditors are Richard I. LaRock, CPA, Audit Supervisor, and Mildred M. Kiesel, CPA.

Cordially,

MIKE CULLEN  
Chairman

cc: Senator Arlen Gregorio  
Assemblyman Barry Keene  
Assemblyman Art Torres

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SUMMARY

The Health Care Deposit Fund (HCDF) was established by Section 14157 of the Welfare and Institutions Code to receive and disburse all funds for the California Medical Assistance Program (Medi-Cal). The program is administered by the Department of Health and the Department of Benefit Payments. The sources of funds supporting the HCDF are (1) federal grants, (2) State General Fund appropriations, and (3) county payments.

The HCDF does not have a permanent cash advance or cash balance sufficient to meet cash flow needs. The need for General Fund loans will continue, unless changes are made in the provisions for obtaining funds or a one-time appropriation is made to the HCDF for working capital.

The need for General Fund loans occurs, in part, because some counties have been delinquent in paying their shares to the State. However, new procedures for collecting delinquent county shares provide a reasonable means under existing law to encourage counties to pay their shares on a more timely basis. There has been a reduction in General Fund loans.

The State's management of HCDF cash after receipt satisfactorily protects the State's entitlement to interest income. The amount of interest income lost to the General Fund is not as much as the amount of the General Fund loans would suggest because the General Fund earns interest income on cash in the HCDF and on cash representing outstanding warrants.

## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed cash management of the Health Care Deposit Fund (HCDF) for the period July 1, 1976 through September 30, 1977, including the amounts due from counties and the amounts borrowed from the State General Fund. The purpose of this review was to determine:

- The need for the General Fund loan
- The status of the receivables from the counties
- The resulting impact on the State's entitlement to interest income.

This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code. We did not perform a financial audit of the HCDF. Our review was limited to evaluating cash management of the fund.

### Background

The Health Care Deposit Fund (HCDF) was established by Section 14157 of the Welfare and Institutions Code to receive and disburse all funds for the California Medical Assistance Program (Medi-Cal). The program is administered by the Department of Health and the Department of Benefit Payments.

Total Medi-Cal costs for fiscal year 1976-77 were \$2,636,000,000. The sources of funds supporting the HCDF are (1) federal grants, (2) State General Fund appropriations, and (3) county payments. The state and federal funding shares for support of the Medi-Cal program are equal. In fiscal year 1976-77, the Federal Government and the State, each paid 43 percent of total Medi-Cal costs. In fiscal year 1976-77 county shares amounted to \$363,000,000, or 14 percent of Medi-Cal program costs.

## STUDY RESULTS

### NEED FOR GENERAL FUND LOANS

The Health Care Deposit Fund (HCDF) is supported by three sources of funding: (1) federal grants, (2) State General Fund appropriations, and (3) county payments. None of these funding sources are designed to provide funds in advance of the payment of Medi-Cal expenses. The HCDF does not have a permanent cash advance or cash balance sufficient to meet cash flow needs. When expenditures are projected to exceed cash balances, loans from the State General Fund are required to provide cash for Medi-Cal payments. The need for General Fund loans will continue, unless changes are made in the provisions for obtaining funds or a one-time appropriation is made to the HCDF for working capital.

Federal funds are made available to the State to aid in funding the Medi-Cal program through a quarterly grant award from the U.S. Department of Health, Education, and Welfare. The grant authorizes the State to draw federal funds as needed for Medi-Cal payments.

The amount of funds the State Controller can transfer from state appropriations to the HCDF was limited by the 1974 Budget Act to the State's share of bills approved for payments. Since that time General Fund loans have been made to meet cash flow needs of the HCDF. As of November 1976, the State Controller has required the Department of Health (DOH) to submit monthly justifications for General Fund loans and to repay the loans the following month.



The formula for determining counties' shares of Medi-Cal program costs is fixed by statute. County shares are payable in 12 equal monthly payments each year. DOH regulations provide that county shares are due on the first day of the month and are delinquent on the last day of the month. Because county shares are not delinquent until the last day of the month, significant Medi-Cal expenditures may precede the receipt of counties' shares.

We have concluded that the need for General Fund loans will continue, unless changes are made in the provisions for obtaining funds, or a one-time appropriation is made to the HCDF for working capital.

AMOUNTS DUE FROM COUNTIES  
HAVE DECREASED

Some counties have been delinquent in paying their shares of Medi-Cal program costs. This increases the need for General Fund loans. However, effective October 1, 1977, DOH and the State Controller agreed to new procedures for collecting delinquent county shares. These new procedures provide a reasonable means under existing law to encourage the counties to pay their shares on a more timely basis and have contributed to a reduction in the amount of General Fund loans.

In December 1976, DOH and the State Controller formed a Task Force to study the problems related to overdue county shares. The State Controller's Office expressed a desire to (1) protect the State's entitlement to interest income, (2) eliminate past delinquencies, and (3) maintain future collections on a relatively current basis. The Controller wished to achieve these objectives without imposing an excessive burden on the counties.

Some delinquent county payments appear to have resulted from the practice of offsetting amounts due to and due from the counties. DOH offsets amounts the State owes counties for health care programs against the county shares owed the State. This practice makes it difficult for the State and the counties to agree on the amounts counties owe the State. For example, counties may have incurred costs to be reimbursed by the State which have not been submitted to the State, but which counties take into account in determining monthly payments to the State.

Recently, DOH began sending the counties statements itemizing charges and credits the State has posted to the account. This should make it easier for the State and the counties to reconcile their records.

DOH and the State Controller Task Force met with the auditors of counties with delinquent balances to reconcile state and county records. As a result of the efforts of the Task Force, in November 1977 DOH and the State Controller agreed upon new procedures to collect the county shares. The agreement between DOH and the State Controller provides in part:

- DOH will continue to offset county billings to the State against county shares
- If county shares are not paid by the last day of the month, DOH will contact the county during the second month to determine the cause of late payment and agree on payment terms
- If agreement is not reached during the second month, DOH will file a liquidated claim as provided in Section 926.10 of the Government Code and request the State Controller to offset other funds due the county as of the first of the third month. The State may begin charging interest on any unpaid balance the 61st day after the liquidated claim is filed
- This agreement expires June 30, 1978, when the Health and Welfare Agency will be reorganized. A new agreement will be entered into on July 1, 1978.

From October 1 until December 1, 1977, DOH provided counties the opportunity to reach an agreement for payments of past due amounts without interest. Agreements were made with three counties for the payment of approximately \$11 million of delinquent county shares. The amounts covered by agreements were payable over specified periods of time up to three years.

Because of the efforts of DOH and the State Controller, the amounts due from counties have decreased from \$58.9 million at October 31, 1976 to \$18.4 million at December 31, 1977. This latter amount consists of the following:

- \$9.8 million from three agreements outstanding for delinquent county shares to be paid without interest
- \$1,457,000 which DOH claimed one county owed the State; this county has filed a counter claim with the State Board of Control for \$1,303,100 plus interest, attorneys fees and other expenses. The disputed costs relate to 1974-75 transactions
- \$7.1 million owed by all other counties combined.

Legislation relative to property tax relief may eliminate counties' shares, passing the burden to the State General Fund. Therefore, collection of county receivables may not be a factor in the future.

We have concluded that the procedures agreed to by DOH and the State Controller provide a reasonable means under existing law to encourage counties to pay their shares on a more timely basis. These procedures have contributed to a reduction in General Fund loans. However, there may be a three-month time period when the State does not realize interest income from the advance on behalf of counties which do not pay their shares on a current basis. Further, it may be more equitable if county shares due on the first day of the month were delinquent on the 15th day of the month. However, because of DOH's success in obtaining agreements on delinquent county shares and legislative proposals to eliminate counties' shares, we make no recommendations at this time.

CASH MANAGEMENT IS SATISFACTORY

The State's management of HCDF cash after receipt satisfactorily protects the State's entitlement to investment income. The amount of interest lost to the State General Fund, if any, is not directly related to the amount of the General Fund loans. The General Fund earns interest on cash in the HCDF and on cash representing outstanding warrants. HCDF cash and amounts representing outstanding warrants are invested as part of the Pooled Money Investment Account (PMIA). The State Treasurer, under direction of the Pooled Money Investment Board, is responsible for maximizing investment income of the PMIA.

Cash Receipts

Sources of cash remitted to the HCDF are (1) state appropriations, (2) federal funds, (3) county shares, (4) recoveries of third-party receivables, and (5) General Fund loans. These receipts are remitted as follows:

- (1) State appropriations--transfers from State General Fund appropriations to the HCDF are made at the time warrants are issued for payment of Medi-Cal costs. There is no average daily balance of state appropriations in the HCDF

- (2) Federal funds--on the first working day of the month, DOH usually draws the estimated amount needed to meet the federal share of administrative expenses. Three other draws are made on Fridays preceding predetermined Monday payment dates. Federal funds are received by the State Treasurer and become part of the PMIA on the same day they are drawn from the Federal Government
- (3) County shares--each county is required to make 12 equal monthly payments each year. County shares are due on the first day of the month and are delinquent on the last day of the month. As discussed previously in this report, some county payments have been delinquent
- (4) Recoveries of third-party receivables--recoveries from third parties, such as insurance companies, accrue to the State and the Federal Government. Cash recoveries pass through the HCDF
- (5) General Fund loans--in each of the 15 months of our review, the HCDF has obtained monthly loans from the State General Fund to meet cash flow needs. The average daily balance of these loans ranged from \$37.0 million to \$69.6 million. The average General Fund loan for the 15-month period was \$48.5 million (see Appendix A).

Cash Disbursements

The State Department of Health contracts with Medi-Cal Intermediary Operations (MIO) for a complete payment system. MIO receives, audits and pays all claims submitted by professional and institutional providers of services to Medi-Cal patients. Approximately 80 percent of the disbursements from the HCDF are paid to MIO.

The State Department of Benefit Payments (DBP) closely monitors and controls the outflow of cash from the HCDF to MIO. The MIO checkwrite (payment of provider claims) occurs three times a month on pre-established dates. MIO sends checks drawn on an MIO checking account in a commercial bank to the providers. At each checkwrite, DBP requests, through DOH, that the State Controller issue a series of state warrants in varying denominations of \$1 million or more to equal the total amount of the MIO checkwrite. The state warrants are issued at the checkwrite date but DBP does not allow MIO to deposit the state warrants to the MIO checking account until needed. DBP allows MIO to deposit only enough state warrants to cover provider checks expected to clear the bank each day.



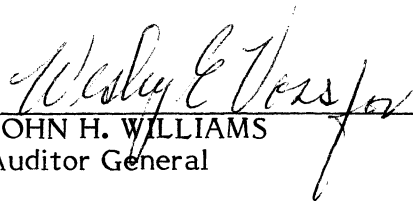
In October 1977, DOH issued a Request for Technical Proposal (RTP) for a Medi-Cal Fiscal Intermediary. The RTP provides that the State Controller's Office will assume the checkwrite function in conjunction with the implementation of a new contract. This will place management of HCDF cash more directly under state control. The DOH estimated timetable for contract approval is September 1, 1978.

Cash in the State Treasury represented by outstanding warrants is invested by the State as part of the PMIA. The average daily balance of outstanding warrants of the HCDF for the period July 1976 through September 1977 averaged \$42.3 million. Interest income to the State General Fund from investments representing outstanding warrants would be much less if the State allowed MIO to deposit the warrants when issued.

For the 15-month period, the General Fund loans averaged \$48.5 million. However, the transfer of General Fund loans to the HCDF has no effect on interest income earned by the General Fund as long as the cash is still in the State Treasury. The difference between the average daily balance of the loan and the average daily balance of HCDF cash per the Controller's records, was \$26.0 million. DOH may require General Fund loans to meet cash needs only on certain days during each month. Excess cash from General Fund loans is available on other days to earn interest income for the General Fund.

We have concluded that, once the counties' shares are obtained, the State's management of HCDF cash satisfactorily protects the State's entitlement to interest income. The amount of interest income lost to the General Fund is not as much as the amount of the General Fund loan would suggest because the General Fund earns interest income on cash in the HCDF and on outstanding warrants.

Respectfully submitted,

  
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JOHN H. WILLIAMS  
Auditor General

March 17, 1978

Staff: Richard I. LaRock, CPA, Audit Supervisor  
Mildred M. Kiesel, CPA

## DEPARTMENT OF HEALTH

714-744 P STREET  
SACRAMENTO, CALIFORNIA 95814

(916) 445-1248



March 16, 1978

John H. Williams  
Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

Dear Mr. Williams:

Thank you for the opportunity to respond to your report to the Joint Legislative Audit Committee on the Health Care Deposit Fund cash management.

The study results indicated that the need for a General Fund loan will continue; we concur. The Department of Health will, however, continue working with the counties and Federal Government to further minimize use of General Fund loans.

Your study also concluded that procedures agreed to by Department of Health and the State Controller provide a reasonable method for collecting shares on a timely basis and that these procedures have contributed to a reduction in General Fund loans; we concur. Prior to these procedures (May, 1975) the Department of Health had established a cash management unit whose primary responsibility was to effect collection of delinquent county and federal shares of the Medi-Cal program. Through the efforts of this unit, the General Fund loan was reduced from \$98,000,000 in May 1975 to \$30,300,000 in November 1977.

You further concluded that the management of the Health Care Deposit Fund satisfactorily protects the State's entitlement to investment income; we concur. It is the Department of Health's intent to continue in its efforts to collect delinquent Medi-Cal shares thereby reducing General Fund loans and minimizing interest losses.

I would like to express my appreciation for the courteous manner in which your staff conducted this study and commend them for undertaking this review with a minimum of disruption in the day-to-day processes.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jerome A. Lackner".

Jerome A. Lackner, M.D.  
Director of Health

# Memorandum

To : John H. Williams  
Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

Date : March 17, 1978


Subject: Health Care Deposit  
Fund Cash Management Report

From : **Department of Benefit Payments**

Thank you for providing us the opportunity to review and make comments on the above report while it is in draft form. We also appreciate the favorable conclusion of your draft audit report regarding the cash management of the Medi-Cal bank account.

There is one item in the report which should be revised; it is the last sentence of the last paragraph on page 13. The sentence, in part, states that we permit a balance in the bank account to compensate the bank for services. Although permitted, our objective is to achieve, as close as possible, a zero bank balance, thereby creating a bank service charge. By doing so, the interest earned by the amount of cash in the Health Care Deposit Fund, coupled with the fact that bank service charges are 50 percent reimbursable by the Federal Government, provides a fiscal advantage to the State.\*

My staff has explained this situation with Richard LaRock. He has acknowledged that they did observe that this is the practice and, accordingly, will revise the statement.

  
R. E. REICH  
Deputy Director

\*Wording changed in final report.



KENNETH CORY  
Controller of the State of California  
SACRAMENTO, CALIFORNIA 95805

March 17, 1978

John H. Williams  
Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

Dear Mr. Williams:

We have reviewed your draft report, dated March 14, 1978, relative to Health Care Deposit Fund Cash Management. The information contained in this report appears indicative of the current conditions existing in the Health Care Deposit Fund. We are pleased that the audit staff concurred with the procedures developed jointly by this office and the Department of Health to encourage the counties to pay their Medi-Cal shares on a more timely basis.

Very truly yours,

A handwritten signature in cursive script, appearing to read "F. Arnold Schuler".

F. Arnold Schuler  
Deputy Controller

FAS/ec

HEALTH CARE DEPOSIT FUND  
AVERAGE DAILY BALANCES

	(1)	(2)	(3)	(4)
	General Fund <u>Loans</u>	<u>Fund Cash</u>	Column (1) Less <u>Column (2)</u>	<u>Outstanding Warrants</u>
<u>1976</u>				
July	\$46,692,898	\$27,441,162	\$19,251,736	\$38,867,349
August	47,800,641	15,705,387	32,095,254	36,308,495
September	54,446,141	24,610,856	29,835,285	33,839,790
October	69,601,095	20,934,557	48,666,538	38,891,899
November	65,683,710	41,408,944	24,274,766	37,498,523
December	40,361,290	21,352,501	19,008,789	26,918,436
<u>1977</u>				
January	37,019,355	14,926,361	22,092,994	31,424,691
February	42,039,286	21,624,620	20,414,666	39,183,015
March	41,280,645	23,563,500	17,717,145	34,171,219
April	54,813,333	26,273,135	28,540,198	60,573,994
May	52,225,806	23,594,699	28,631,107	44,718,008
June	52,623,333	17,449,814	35,173,519	58,826,168
July	40,383,871	12,990,699	27,393,172	51,710,232
August	41,967,742	24,505,856	17,461,886	41,819,942
September	40,913,333	20,737,172	20,176,161	59,976,851
Fifteen-Month Average	\$48,523,499	\$22,474,618	\$26,048,881	\$42,315,240

Columns 1, 2 and 4 computed from State Controller Records