



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
HEALTH AND WELFARE AGENCY
YEAR ENDED JUNE 30, 1979**

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-056**

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

056

FINANCIAL AUDIT REPORT
HEALTH AND WELFARE AGENCY
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

056

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 Health and Welfare Agency, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA; Ross Luna; Lisa Kenyon; and Mark Tebbutt.

Respectfully submitted,

S. Floyd Mori
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 Health and Welfare Agency. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Health and Welfare Agency is responsible to the Governor for the supervision of the State's health, welfare, and social programs. The Secretary of Health and Welfare, a member of the Governor's cabinet, advises the Governor on major policy and program matters and oversees the operation of the several departments and offices of the agency. The agency also reviews, modifies, approves, and funds selected multipurpose senior service projects based upon criteria prescribed in Chapter 5 (commencing with Section 9400) of Division 8.5 of the Welfare and Institutions Code.

The programs of the Health and Welfare Agency are supported by appropriations from the State's General Fund.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the Health and Welfare Agency as of June 30, 1979 and the related statement of financing sources, expenditures, and changes in operating clearing for the year then ended. 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 aforementioned financial statements present fairly the financial position of the Health and Welfare Agency at June 30, 1979 and the results of operations and changes in operating clearing for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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 and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



WESLEY E. VOSS
Assistant Auditor General

Date: August 29, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Ross Luna
Lisa Kenyon
Mark Tebbutt

HEALTH AND WELFARE AGENCY
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP

JUNE 30, 1979

	<u>Governmental Fund Type</u>	<u>Account Group</u>	<u>Totals</u>
	<u>General</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
<u>ASSETS</u>			
Cash	\$ 9,506	\$ --	\$ 9,506
Accounts receivable	274,666	--	274,666
Prepayments to other funds	3,341	--	3,341
Equipment	<u>--</u>	<u>13,245</u>	<u>13,245</u>
Total Assets	<u>\$287,513</u>	<u>\$13,245</u>	<u>\$300,758</u>
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	<u>\$207,451</u>	<u>\$ --</u>	<u>\$207,451</u>
Encumbrances Outstanding	<u>46,670</u>	<u>--</u>	<u>46,670</u>
Fund Equity:			
Investment in fixed assets		13,245	13,245
Operating clearing (Note 4)	<u>33,392</u>	<u>--</u>	<u>33,392</u>
Total Fund Equity	<u>33,392</u>	<u>13,245</u>	<u>46,637</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$287,513</u>	<u>\$13,245</u>	<u>\$300,758</u>

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

HEALTH AND WELFARE AGENCY
 STATEMENT OF FINANCING SOURCES, EXPENDITURES, AND
 CHANGES IN OPERATING CLEARING
 GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Financing Sources:	
Support appropriation (Note 2)	\$1,333,097
Reimbursements	<u>298,096</u>
Total Financing Sources	<u>1,631,193</u>
Expenditures:	
Personal services	932,792
Operating expenses	409,788
Miscellaneous adjustments (Note 3)	<u>3,850</u>
Total Expenditures	<u>1,346,430</u>
Excess of Financing Sources over (under) Expenditures	284,763
Operating Clearing - July 1	<u>(351,371)</u>
Operating Clearing - June 30	<u><u>\$ 33,392</u></u>

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

HEALTH AND WELFARE AGENCY
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 Health and Welfare Agency. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into a Governmental Fund Type and an Account Group. The Health and Welfare Agency accounts for only its portion of the fund type category. The State Controller maintains the central accounts for all state funds and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental 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 Funds--are accounted for through governmental funds. The General Fund is the Governmental Fund Type in the Health and Welfare Agency.

General Fund

This fund includes all financial resources not accounted for in another fund. The General Fund is maintained on the modified accrual basis of accounting. These are some of its significant elements:

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 income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. 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 agency are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and its employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year totaled \$128,760.

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

ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. General fixed assets increased by a net of \$2,266 during the fiscal year.

2. SUPPORT APPROPRIATION

Support appropriation is the portion of the General Fund which the legislative Budget Act allocated to the Health and Welfare Agency.

3. MISCELLANEOUS ADJUSTMENTS

This account shows the difference between the net amount of revenues, expenditures, abatements, and reimbursements accrued as of the previous June 30 and the actual amount of revenues, expenditures, abatements, and reimbursements related to the prior year but obtained during the current fiscal year.

4. OPERATING CLEARING

This account is the connecting link between the records of the various state agencies and the central fund accounts of the State Controller for the General Fund and other funds not accounted for entirely by one agency.

SUPPLEMENTAL INFORMATION

The following financial statement is not considered necessary for a fair presentation of the agency's financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles but is 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 following financial statement, 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.

HEALTH AND WELFARE AGENCY
 COMPARISON OF BUDGETED EXPENDITURES
 WITH ACTUAL EXPENDITURES
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Budget as <u>Adjusted</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures:			
Personal services	\$ 997,607	\$ 932,792	\$ 64,815
Operating expenses	825,526	409,788	415,738
Miscellaneous adjustments		3,850	(3,850)
Reimbursements	<u>(295,237)</u>	<u>(298,096)</u>	<u>2,859</u>
Total Expenditures	<u>\$1,527,896</u>	<u>\$1,048,334</u>	<u>\$479,562</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the agency's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the committee'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 agency in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The agency generally concurs with the suggested operating improvements, recommendations, 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