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WALTER M. INGALLS
 CHAIRMAN

March 30, 1982

083

The Honorable President pro Tempore of the Senate
 The Honorable Speaker of the Assembly
 The Honorable Members of the Senate and the
 Assembly of the Legislature of California

Members of the Legislature:

Transmitted herewith is the Auditor General's report on the Office of Statewide Health Planning and Development. This report resulted from a request to evaluate the adequacy of the accounting methods used for the Hospital Building Account which was established in 1972 under the Seismic Safety Act.

The OSHPD had not developed and maintained an adequate accounting system. As a consequence, the fund balance was understated by \$408,594 at June 30, 1981. Also, the reasonableness of the amounts charged applicants for review of construction plans could not be determined because of inadequate cost accounting. The report includes recommendations for improved accounting for costs and revenues as a basis for setting fees and keeping track of amounts due.

Respectfully submitted,

WALTER M. INGALLS
 Chairman, Joint Legislative
 Audit Committee

WMI : smh



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Thomas W. Hayes
Auditor General

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March 29, 1982

Letter Report 083

Honorable Walter M. Ingalls
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to your request, we have reviewed the accounting system maintained by the Office of Statewide Health Planning and Development (OSHPD) for the Hospital Building Account. This review was conducted under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

Our review indicated deficiencies in the OSHPD's accounting methods. These deficiencies have resulted in a \$1,036,300 understatement of accounts receivable and a \$627,706 understatement of accounts payable for the financial statements of the Hospital Building Account as of June 30, 1981. In addition, we found that the OSHPD has not developed and implemented an adequate method to determine its cost of administering the Seismic Safety Act. Our review also indicated that costs charged by the Office of the State Architect to the OSHPD for contractual services provided under the Seismic Safety Act were properly supported.

BACKGROUND

The Hospital Building Account (HBA), a part of the Architecture Public Building Fund, was created by Chapter 1130, Statutes of 1972, commonly known as the "Seismic Safety Act." The HBA receives funding from application fees paid by the hospital administrators and from interest earned from the Surplus Money Investment Fund. The HBA provides the funding necessary to review working drawings and specifications and to observe hospital construction projects to ensure that earthquake standards are met. To enforce these structural seismic safety standards, the Seismic Safety Act requires the OSHPD to perform

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 Chairman, and Members of the
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all administrative functions related to the act and to contract with the Office of the State Architect, within the Department of General Services, to review all construction plans and specifications for health facilities. Section 15011 of the Health and Safety Code has established a maximum application fee rate of 0.7 percent of the estimated construction cost.

The fees collected and interest earned are appropriated by the OSHPD to carry out the provisions of the Seismic Safety Act. During fiscal year 1980-81, the various costs of enforcing the Seismic Safety Act amounted to \$2,227,706, as detailed below.

TABLE 1

OSHPD'S DIRECT AND INDIRECT COSTS
 FOR ADMINISTERING THE SEISMIC SAFETY ACT
FOR FISCAL YEAR ENDING JUNE 30, 1981

	<u>Amount</u>	<u>Percentage</u>
Direct Costs		
Seismic Safety Commission	\$ 9,328	.42%
Office of the State Architect	1,683,073	75.55%
Facilities Development Unit ^a	347,874	15.62%
Equipment Anchorage Unit ^a	59,080	2.65%
Indirect Costs		
Legal Office	12,780	.57%
Administration Units	<u>115,571</u>	<u>5.19%</u>
Total	<u>\$2,227,706</u>	<u>100.00%</u>

^a The Facilities Development and Equipment Anchorage Units of the Office of Statewide Health Planning and Development are directly responsible for enforcing the provisions of the Seismic Safety Act.

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The Structural Safety Section of the Office of the State Architect is responsible for reviewing working drawings and specifications and for observing hospital construction projects. The working drawings and specifications are assigned to structural engineers who review and approve them in accordance with seismic safety standards. Hospital projects that are under construction are observed by qualified inspectors of the Structural Safety Section who verify that the work performed and the materials used are in accordance with the approved plans and specifications. The Structural Safety Section bills the OSHPD on a monthly basis for all of its hospital work.

SCOPE AND METHODOLOGY

To evaluate the adequacy of the OSHPD's system of accounting for the HBA, we analyzed its method of recording the application fees, examined the costs charged by the OSHPD to the HBA, and verified those charges by examining supporting documents.

Further, we examined the Office of the State Architect's monthly charges to determine if all costs charged to the OSHPD are properly supported by reports of staff-hours, salaries, operating expenses, and overhead costs.

AUDIT RESULTS

The Accounting System for the Hospital Building Account Is Inadequate

We found that the Office of Statewide Health Planning and Development has not developed and implemented an adequate accounting system to account properly for revenues and expenditures of the Hospital Building Account. In our review, we determined that the OSHPD is not identifying and reporting all accounts receivable or accounts payable of the HBA. As a result of this inadequate recordkeeping, the HBA fund balance was understated by \$408,594 as of June 30, 1981. In addition, we were unable to determine if the amounts charged by the OSHPD for administering the Seismic Safety Act are reasonable.

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The OSHPD Is Not Properly
 Accounting for Revenue or
 Expenditures of the HBA

For the HBA, the OSHPD did not identify and report \$1,036,300 as accounts receivable and \$627,706 as accounts payable as of June 30, 1981.

Section 94056 of the Health Planning and Facilities Construction Code allows applicants to pay only a preliminary fee deposit of between \$100 and \$1,000 when filing an application to have drawings and specifications reviewed. In addition, Section 94056 allows applicants to pay only 70 percent of the required application fee until a project is completed. Thus, unpaid application fees can result from projects that are at two different stages of completion: projects for which only the preliminary fee deposit has been paid and projects for which the remaining 30 percent of the application fee is owed. These unpaid fees should be identified and reported to the HBA financial records as an account receivable. However, the OSHPD does not accumulate the available information and report unpaid application fees to the HBA financial statements. Consequently, the OSHPD did not identify and report \$1,036,300 as accounts receivable.

As of June 30, 1981, the OSHPD had 454 projects in progress, ranging from receipt of application to approval of project completion, of which 60 had application fees due. The following two examples illustrate projects in progress that had application fees due as of June 30, 1981.

TABLE 2

ESTIMATED COSTS, FEES OWED, AND FEES COLLECTED
 OF SELECTED PROJECTS IN PROGRESS

	<u>Estimated Hospital Cost</u>	<u>Fees Owed as of June 30, 1981</u>	<u>Fees Collected as of June 30, 1981</u>	<u>Difference</u>
O'Conner Hospital	\$36,200,000	\$253,400	\$177,850	\$75,550
Moffitt Hospital	45,071,000	315,497	220,847	94,650

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In addition, the OSHPD failed to report \$627,706 as accounts payable in the HBA financial statements as of June 30, 1981. As a result of uncollected fees and unreported accounts payable, the assets of the HBA were understated at June 30, 1981, by \$408,594 (\$1,036,300 less \$627,706), resulting in a distorted record of available resources. This distorted record may in turn affect program planning.

The adjustments necessary to correct the reported fund balance at June 30, 1981, are shown below:

TABLE 3

ADJUSTMENTS NECESSARY TO CORRECT
THE HBA FUND BALANCE AT JUNE 30, 1981

Fund Balance per OSHPD at June 30, 1981	\$1,246,872
Add: Accounts Receivable (Unpaid Application Fees)	1,036,300
Less: Accounts Payable	<u>(627,706)</u>
Adjusted Fund Balance	<u><u>\$1,655,466</u></u>

The OSHPD Does Not Adequately
Determine Its Cost of
Administering the Seismic Safety Act

We found that the OSHPD has not developed and implemented an adequate cost accounting system to determine its cost of administering the Seismic Safety Act. Under current procedures, the OSHPD charges the HBA an amount for its costs of administering the Seismic Safety Act. This amount is based upon an analysis of the previous year's estimated costs. This method does not provide adequate analysis to ensure that actual costs of administration were correctly charged. To determine adequately the costs of enforcing the Seismic Safety Act, the OSHPD should implement a time reporting system and an overhead cost rate. This system should accumulate and report the direct and overhead costs of the staff and the support units of the

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OSHPD. A previous management letter (Number 508, dated October 15, 1980) issued by the Auditor General to the OSHPD recommended that a time reporting system be established to determine the proper allocations of costs among its various funds. Although the OSHPD's response to this management letter indicated that such a system would be developed, the OSHPD has not yet developed a time reporting system. Further, the OSHPD has not developed an overhead cost rate to determine the cost of those administration functions that should be charged to the Seismic Safety Act. As a result of these conditions, it is uncertain whether the amounts reimbursed by the HBA to the OSHPD for enforcing the Seismic Safety Act are reasonable.

CONCLUSION

The Office of Statewide Health Planning and Development is not properly accounting for the Hospital Building Account. The OSHPD has not developed an adequate accounting system to determine unpaid application fees or the costs of administering the Seismic Safety Act. Specifically, the OSHPD did not identify and report \$1,036,300 of unpaid application fees as accounts receivable, nor did it report \$627,706 as accounts payable to the HBA fund balance as of June 30, 1981. As a result, the HBA fund balance is understated by \$408,594 as of June 30, 1981.

Further, we found that it is not possible to determine if the amount charged by OSHPD to administer the Seismic Safety Act is reasonable.

RECOMMENDATION

We recommend that the Office of Statewide Health Planning and Development develop an adequate accounting system for the Hospital Building Account. Specifically, the OSHPD should do the following:

- Develop a revenue report that identifies the application fee received and the amount due for each individual project. For the purpose of the year-end financial statement, the unpaid application fees should be identified and reported as accounts receivable;

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- Develop and implement a time reporting system for the administration of the Seismic Safety Act; and
- Develop an administrative overhead rate based on the actual costs incurred in administering the Seismic Safety Act.

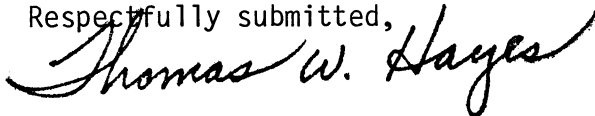
OTHER PERTINENT INFORMATION

Costs Charged by the
Office of the State Architect
Are Properly Supported

We reviewed the OSHPD's contract with the Structural Safety Section (SSS) of the Office of the State Architect. We determined that the costs charged by the SSS for structural review of working drawings and specifications and for observation of construction are properly supported by reports of staff-hours, salaries, operating expenditures, and overhead costs.

The Structural Safety Section is responsible for reviewing all construction plans and specifications for public school projects as well as hospital projects. The operating expenses of the SSS are paid through the Service Revolving Fund, which in turn is reimbursed by the OSHPD. The SSS has developed and implemented a time reporting system that accumulates the number of hours that each structural engineer and field inspector devoted to either hospital or school projects. The SSS calculates the percentage of time the staff worked on hospital projects and the amount of time spent on school projects. The percentage for hospital projects is multiplied by the monthly operating expenses of the SSS to determine the fee to be charged to the OSHPD.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Staff: Curt Davis, CPA, Audit Manager
Jim Rostron

Memorandum

To : Thomas W. Haynes
Auditor General
Office of Auditor General
660 "J" Street, Suite 300
Sacramento

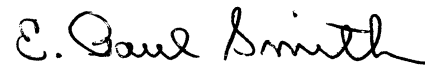
Date : March 19, 1982

Subject: Hospital Building
Account

From : Office of the Director

Attached is the Office of Statewide Health Planning and Development's response to the recommendations contained in your report on the Hospital Building Account.

If you have any questions please contact Paul Cerles at 323-5500. Thank you.



E. Paul Smith, D.P.A.
Acting Director

Attachment

Recommendation

Develop a revenue report that identifies the application fee received and the amount due for each individual project. For the purpose of the year-end financial statement, the unpaid application fees should be identified and reported as accounts receivable.

Response

The Facilities Development Division, upon receipt of an application, sets up a file for the project, calculates the fees due and the fees received. Prior to the closeout of the project, the Division informs the applicant of the amount of additional fees due.

At the end of the 1981-82 fiscal year, and each year thereafter, the amount of unpaid application fees will be identified by the Division and reported to the Accounting Office for inclusion in the year-end financial report.

Additionally, the Office is currently preparing a change to Section 94056, California Administrative Code, to require applicants to pay 100% of the required application fee, thus eliminating unpaid application fees.

Recommendation

Develop and implement a time reporting system for the administration of the Seismic Safety Act.

Response

The Facilities Development Division has, effective October 1, 1980, a monthly time reporting system which requires all professional staff to report their hours worked by function.

For the 1981-82 year-end financial report, this data will be utilized to charge to the Hospital Building Account the actual costs of administering the Seismic Safety Act.

Recommendation

Development an administrative overhead rate based on the actual costs incurred in administering the Seismic Safety Act.

Response

The Office allocates costs of administrative overhead units to all programs operated by the Office. The allocation is based upon the Personal Services costs of each program to the total Personal Services costs. Thus, if a program's Personal Services Costs are 10% of the Office's total Personal

Services costs, the program is assessed 10% of the costs of the administrative overhead units.

This methodology has in the past caused differing amounts and percentages of administrative overhead costs to be charged to the programs operated by the Office. However all programs operated are charged on the same basis, and our Indirect Cost Rate agreement with the federal government prohibits the Office from charging them on an inequitable basis.