



Joint Legislative Audit Committee
Office of the Auditor General



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

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-500**

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

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FINANCIAL AUDIT REPORT
HEALTH AND WELFARE AGENCY DATA CENTER
REVOLVING FUND
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

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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 Data Center, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael C. Dendorfer, CPA; Ross Luna; Robyn Graves; Lisa Kenyon; and Harriet Kiyon.

Respectfully submitted,

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 Data Center. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

Chapter 787, Statutes of 1972 established the Health and Welfare Agency Data Center as one of four consolidated data centers within State Government. This center's primary objectives are (1) to ensure the effective, efficient, and economical use of the various health and welfare agencies, electronic data processing (EDP) resources; (2) to ensure that the necessary EDP resources are available to meet projected needs; and (3) to formulate and recommend policies on the appropriate use of EDP in the various health and welfare agencies.

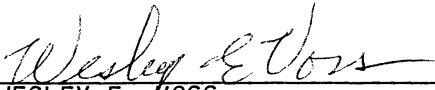
The Health and Welfare Data Center's activities are funded by reimbursements from user agencies and by a \$1 million working capital advance from a General Fund appropriation.

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 Data Center Revolving Fund as of June 30, 1979, and the related statement of revenues, expenses, and changes in retained earnings and financial position 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 Data Center Revolving Fund at June 30, 1979, and the results of operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. MOSS
Assistant Auditor General

Date: September 1, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Ross Luna
Robyn Graves
Lisa Kenyon
Harriet Kiyon

STATE OF CALIFORNIA
HEALTH AND WELFARE AGENCY DATA CENTER
REVOLVING FUND

BALANCE SHEET
INTERNAL SERVICE FUND

JUNE 30, 1979

ASSETS

Cash	\$ 579,551
Receivables	757,345
Expense advances to employees	3,868
Equipment (Note 3)	5,287,350
Accumulated depreciation (Note 3)	(2,761,777)
Advances to the Architecture Revolving Fund	<u>95,540</u>
Total Assets	<u>\$ 3,961,877</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$ 767,724
Installment purchase contracts (Note 4)	364,044
Due to other funds (Note 5)	1,774,023
Advance from the General Fund (Note 6)	<u>1,000,000</u>
Total Liabilities	3,905,791
Fund Equity:	
Contributed capital	158,879
Designated for construction	95,540
Fund balance:	
Retained earnings	<u>(198,333)</u>
Total Fund Equity	<u>56,086</u>
Total Liabilities and Fund Equity	<u>\$ 3,961,877</u>

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

STATE OF CALIFORNIA
HEALTH AND WELFARE AGENCY DATA CENTER
REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Operating Revenues:	
Charges for services	<u>\$6,572,892</u>
Operating Expenses:	
Personal services	2,607,728
General	108,234
Communication	115,184
Travel	16,120
Facilities operation	126,453
Contract services	580
Training	40,144
Data processing	3,282,475
Equipment	15,112
Depreciation	803,646
Miscellaneous adjustments	<u>126,685</u>
Total Operating Expenses	<u>7,242,361</u>
Operating Loss	<u>(669,469)</u>
Nonoperating Revenues (Expenses):	
Support appropriations	480,000
Interest expense	<u>(8,864)</u>
Total Nonoperating Revenues	<u>471,136</u>
Net Loss	(198,333)
Retained Earnings - July 1	<u> --</u>
Retained Earnings - June 30	<u>\$ (198,333)</u>

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

STATE OF CALIFORNIA
HEALTH AND WELFARE AGENCY DATA CENTER
REVOLVING FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION
INTERNAL SERVICE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Sources of Working Capital:	
Operations:	
Net loss	\$ (198,333)
Items not requiring working capital:	
Depreciation	<u>803,646</u>
Working Capital Provided by Operations	605,313
Advance from the General Fund	<u>1,000,000</u>
Total Sources of Working Capital	<u>1,605,313</u>
Uses of Working Capital:	
Acquisition of property, plant, and equipment	<u>(3,170,340)</u>
Total Uses of Working Capital	<u>(3,170,340)</u>
Net Decrease in Working Capital	<u><u>\$(1,565,027)</u></u>
Elements of Net Increase (Decrease) in Working Capital:	
Cash	\$ 579,551
Receivables	761,213
Accounts payable	(767,724)
Installment purchase contracts	(364,044)
Due to other funds	<u>(1,774,023)</u>
Net Decrease in Working Capital	<u><u>\$(1,565,027)</u></u>

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

STATE OF CALIFORNIA
HEALTH AND WELFARE AGENCY DATA CENTER
REVOLVING FUND
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 Data Center Revolving Fund. Except as described in Note 2, the statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by both the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into a Proprietary Fund Type. These fund types account for all assets, liabilities, revenues, expenses, and transfers relating to the government's business and quasi-business activities where net income and capital maintenance are measured.

The Health and Welfare Agency Data Center Revolving Fund is an Internal Service Fund which is a form of the Proprietary Fund Type. This fund is used to account for electronic data processing services provided to other health and welfare agencies on a cost-reimbursement basis. It is maintained on an accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. These are some significant elements of the fund:

Liabilities

Retirement Plan - Regular employees 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. Agency retirement contributions for the year totaled \$327,038.

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

2. INVENTORIES

Our auditors have informed us that, according to generally accepted accounting principles, Proprietary Funds should record inventory items as assets until they are used or consumed. When they are used, they should be recorded as expenditures. Within the fund, inventory items have been recorded as expenditures when purchased; therefore, no disclosure of the amount of the items on hand at June 30, 1979 was made in the balance sheet. Our auditors indicated that because this amount, estimated at \$200,000 is not material to the statements taken as a whole, no adjustment has been made.

3. EQUIPMENT/ACCUMULATED DEPRECIATION

Equipment is valued at cost or estimated cost and the depreciation of equipment is computed principally on the straight-line basis over the estimated useful lives of the various classes of assets.

4. INSTALLMENT PURCHASE CONTRACTS

This account represents unpaid principal balances of four installment purchase contracts aggregating to \$364,044 at June 30, 1979 payable monthly from July 1979 through July 1983, with interest rates at 6.5 percent for one contract and 7.75 percent for the other three contracts.

5. DUE TO OTHER FUNDS

This account shows the amount owed to the Employment Development Department for electronic data processing equipment purchased during the 1978-79 fiscal year.

6. ADVANCE FROM THE GENERAL FUND

Chapter 518 of the Statutes of 1978 created the Health and Welfare Agency Data Center Revolving Fund to provide a continuous source for the payment of expenses of the center. This chapter also appropriated \$1 million from the General Fund to provide data processing services. The statute provides that if at the end of any fiscal year the surplus in the fund exceeds \$2 million, the excess shall be used to repay the General Fund appropriation.

OTHER COMMENTS

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

The agency concurs with the suggested operating improvements 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