



Joint Legislative Audit Committee  
Office of the Auditor General



---

**FINANCIAL AUDIT REPORT**  
**DEPARTMENT OF HEALTH SERVICES**  
**GENERAL FUND**  
**GENERAL FIXED ASSETS ACCOUNT GROUP**  
**YEAR ENDED JUNE 30, 1979**

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT **F-515**

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

515

FINANCIAL AUDIT REPORT  
STATE DEPARTMENT OF HEALTH SERVICES  
GENERAL FUND  
GENERAL FIXED ASSETS ACCOUNT GROUP  
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

SENATORS  
ALBERT RODDA  
PAUL CARPENTER  
JOHN NEJEDLY  
ROBERT PRESLEY  
  
ASSEMBLYMEN  
S. FLOYD MORI  
DANIEL BOATWRIGHT  
LEROY GREENE  
BRUCE NESTANDE

□ STATE CAPITOL  
SACRAMENTO 95814  
(916) 445-7380

□ 925 L STREET  
SUITE 750  
SACRAMENTO 95814  
(916) 445-0255

S. FLOYD MORI  
CHAIRMAN

November 21, 1980

515

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 State Department of Health Services, year ended June 30, 1979.

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

Respectfully submitted,

S. FLOYD MORI  
Chairman, Joint Legislative  
Audit Committee

Attachment

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
BALANCE SHEET	5
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY	6
GENERAL FUND	
NOTES TO THE FINANCIAL STATEMENTS	7
SUPPLEMENTAL INFORMATION	11
COMPARISON OF BUDGETED EXPENDITURES WITH ACTUAL EXPENDITURES	12
GENERAL FUND	
OTHER COMMENTS	13

## 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 State Department of Health Services. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The State Department of Health Services has the responsibility for improving and sustaining the quality and quantity of services that affect the health of California citizens. These are the department's objectives:

- To promote an environment that will contribute to human health and well-being;
- To assure that all Californians enjoy equal access to public and private comprehensive health services, including primary and long-term care;
- To establish and maintain standards and regulations that assure high quality services and programs;
- To work with agencies providing and financing health-related services; medical schools, hospitals, private practitioners, and other individuals; and with agencies advocating health care services;

- To emphasize prevention-oriented health care programs;
- To research the causes and cures of illness and to develop the means of delivering health services to the public; and
- To assure that public funds economically serve those persons with the greatest health care needs.

Programs of the State Department of Health Services' General Fund are supported by appropriations from the State's General Fund and by grants from the Federal Government.

## AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

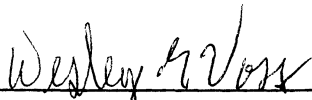
We have examined the balance sheet of the State Department of Health Services' General Fund and General Fixed Assets Account Group as of June 30, 1979 and the General Fund's statement of revenues, expenditures, and changes in fund equity for the year then ended. Except as set forth in the following paragraphs, 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.

Section 10850 of the California Welfare and Institutions Code bars the Auditor General from access to information which identifies by name and address any applicant or recipient of public assistance. Accordingly, we could only determine that an amount was paid; we could not determine if the amount was proper or if the payee was a legal beneficiary. This restriction applies to \$1.9 billion of total General Fund expenditures stated at \$2.1 billion. Accordingly, we did not examine adequate evidential matter for approximately 90 percent of the department's total expenditures.

In addition, as explained in Note 3, the equipment account amounting to \$5.5 million at June 30, 1979 included items belonging to other state departments. We were unable to determine the value of these equipment items. The department's records do not permit us to apply adequate auditing procedures to substantiate the value of equipment.

Since we were unable to examine adequate evidential matter to substantiate the balances of expenditures and equipment, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the department's General Fund and General Fixed Assets Account Group as of June 30, 1979.

The accompanying supplemental information is not necessary for a fair presentation of the financial statements but is presented as additional analytical data. The supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements, however, as noted in the preceding paragraphs, because of limitations on the scope of our work, we do not express an opinion on the financial statements of the department, and therefore, we do not express an opinion on the supplemental information.

  
\_\_\_\_\_  
WESLEY E. VOSS  
Assistant Auditor General

Date: August 26, 1980

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



STATE DEPARTMENT OF HEALTH SERVICES  
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP  
BALANCE SHEET

JUNE 30, 1979

<u>ASSETS</u>	<u>Governmental Fund Type</u>	<u>Account Group</u>
	<u>General Fund</u>	<u>General Fixed Assets</u>
Cash	\$ 8,323,610	\$ --
Receivables (net of allowances for deferred and uncollectibles--\$6,239,687) (Note 2)	29,187,282	--
Due from the Federal Government	19,314,313	--
Prepayments to other funds	133,465	--
Expense advances to employees	413,748	--
Land	--	665,384
Improvements	--	7,277,338
Equipment (Note 3)	--	5,542,206
Construction work in progress	--	917,893
Total Assets	<u>\$ 57,372,418</u>	<u>\$14,402,821</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Liabilities: (Note 5)		
Accounts payable (Note 4)	\$ 80,768,353	\$ --
Reimbursements collected in advance	1,616,594	--
Other liabilities	4,047,245	--
Total Liabilities	<u>86,432,192</u>	<u>--</u>
Fund Equity:		
Investment in General Fixed Assets	--	13,484,928
Clearing account with the State Controller	(29,059,774)	--
Fund Balance:		
Designated for construction	--	917,893
Total Fund Equity	<u>(29,059,774)</u>	<u>14,402,821</u>
Total Liabilities and Fund Equity	<u>\$ 57,372,418</u>	<u>\$14,402,821</u>

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

STATE DEPARTMENT OF HEALTH SERVICES

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND EQUITY  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Intergovernmental revenues	\$ 28,487,349
Charges for services	<u>3,743,386</u>
Total Revenues	<u>32,230,735</u>
Expenditures:	
Medical assistance program	1,922,222,169
Other health programs	123,645,214
Personal services	69,962,036
Operating expenses and equipment	34,205,217
Capital outlay	1,077,475
Reimbursements	<u>(12,249,201)</u>
Total Expenditures	<u>2,138,862,910</u>
Excess of Expenditures over Revenues	<u>(2,106,632,175)</u>
Other Financing Sources (Uses):	
Support and program appropriations (Note 6)	1,983,965,637
Operating transfers in	85,095,841
Reverted appropriations	35,421,509
Miscellaneous adjustments	<u>(3,834,398)</u>
Total Other Financing Sources	<u>2,100,648,589</u>
Excess of Expenditures over Revenues and Other Sources	(5,983,586)
Fund Equity - July 1	<u>(23,076,188)</u>
Fund Equity - June 30	<u>\$ (29,059,774)</u>

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

STATE DEPARTMENT OF HEALTH SERVICES  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State Department of Health Services' General Fund and the General Fixed Assets Account Group reflect financial position and the results of operations. Except as described in Note 4 and Note 5, 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 State Department of Health Services accounts for only its portion of the fund type category. The State Controller maintains central accounts for all state funds and annually publishes 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 Governmental Fund Type for the State Department of Health Services is the General Fund, which includes all financial resources not accounted for in another fund. This fund is maintained on the modified accrual basis of accounting. These are some of its significant elements:

Income

Throughout the fiscal year 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 earned but uncollected income.

## Expenditures

Expenditures are accounted for at the time claims for payments are filed with the State Controller. At June 30, all valid expenditure commitments, except for medical assistance obligations described in Note 4, 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 department are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the department 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. The department's share of retirement contributions for the year totaled \$10,317,745.

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.

## ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Except as described in Note 3, assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrances.

## 2. RECEIVABLES

The General Fund accounts for the department's operating expenses and is reimbursed by other departmental funds for their share of these expenses. At the end of the year, most of the balance of receivables reflected the amount due from other departmental funds for this purpose. The allowance for deferred and uncollectible receivables amounting to \$6,239,687 reflects those due from various health care providers, individuals, former employees, and some local governments.

### 3. EQUIPMENT

As a result of the department's organization which took effect in July 1978, the equipment account amounting to \$5.5 million at June 30, 1979 includes items belonging to other state departments. The department is identifying these items. As soon as it has completed a final accounting and has correctly determined the values, it will record the amounts.

### 4. ACCOUNTS PAYABLE

Except for the unrecorded expenditures and accounts payable related to the medical assistance program as described in Note 5, accounts payable include the amounts of valid encumbrances which were unliquidated on June 30, 1979 and which were accrued as expenditures of the 1978-79 fiscal year. Reporting encumbrances as accounts payable for the fiscal year covered by this report is a departure from generally accepted accounting principles. One currently acceptable method of accounting for encumbrances is to report the amount of encumbrances as an expenditure in an encumbrance outstanding account that is separated from liabilities and fund balance. These financial statements, which have been prepared to conform with state requirements, do not reflect this separation.

### 5. UNRECORDED LIABILITY

Under the State's method of accounting, California's share of medical care and service expenditures of the California Medical Assistance Program are recognized in both the State's General Fund and the Health Care Deposit Fund administered by the department. The Health Care Deposit Fund was created as a depository of monies to provide health care for recipients of public assistance and for the medically indigent or aged. The Federal Government funds approximately 45 percent of the program of medical assistance while the State and the counties share the balance of the costs.

Under current procedures, expenditures are recognized in the Health Care Deposit Fund when payment is made to health care providers, and expenditures are recognized in the General Fund when payment is made to reimburse the Health Care Deposit Fund for its share of those expenditures. This cash basis method of recognizing expenditures results in a material understatement of accounts payable for both the General Fund and the Health Care Deposit Fund. The estimated unaccrued expenditures applicable to the General Fund at June 30, 1979 is \$273 million.

6. SUPPORT AND PROGRAM APPROPRIATION

The legislative Budget Act annually appropriates monies to the State Department of Health Services to be used for support and program purposes. The appropriation transferred to the department during fiscal year 1978-79 totaled \$1.984 billion; of this amount, \$1.922 billion was for the State's share of the California Medical Assistance Program.

7. CONTINGENT LIABILITIES

The department is a defendant in several lawsuits involving medical assistance and other health programs. According to the State Attorney General, it is impossible at the present time to estimate the department's liability in these lawsuits.

## SUPPLEMENTAL INFORMATION

The following financial statement - Comparison of Budgeted Expenditures with Actual Expenditures - is not considered necessary for a fair presentation of the department'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. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the supplemental information.

The amounts shown on the statement as budget 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.

STATE DEPARTMENT OF HEALTH SERVICES

COMPARISON OF BUDGETED EXPENDITURES  
WITH ACTUAL EXPENDITURES  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as Adjusted</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:			
Medical assistance program	\$2,077,168,902	\$1,922,222,169	\$154,946,733
Other health programs	135,220,292	123,645,214	11,575,078
Personal services	75,093,887	69,962,036	5,131,851
Operating expenses and equipment	38,712,541	34,205,217	4,507,324
Capital outlay	1,073,977	1,077,475	(3,498)
Reimbursements	<u>(17,124,081)</u>	<u>(12,249,201)</u>	<u>(4,874,880)</u>
Total Expenditures	<u>\$2,310,145,518</u>	<u>\$2,138,862,910</u>	<u>\$171,282,608</u>



## OTHER COMMENTS

As an integral part of our examination, we reviewed the department'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 department's financial statements present its 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 department.

The department generally concurs with the suggested operating improvements.

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