



Joint Legislative Audit Committee
Office of the Auditor General



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

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-610.1**

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

610.1

FINANCIAL AUDIT REPORT
STATE DEPARTMENT OF SOCIAL 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

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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

610.1

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 Social Services, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA;
Ross Luna; Lisa Kenyon; Robyn Graves; and M. Osman Sanneh.

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 General Fund and the General Fixed Assets Account Group of the State Department of Social 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 Social Services manages four major program areas--welfare program operations, social services, disability evaluation, and licensing of community care facilities. Another component of the department provides administrative support.

The goals of the department are to ensure that payments and benefits are delivered to welfare recipients, to the unemployed, and to other economically disadvantaged persons; to provide social services to California's elderly, blind, and disabled and other adults and children; and to evaluate the disability of applicants for various Social Security Act programs and for state disability programs. The department also regulates group homes, nurseries, preschools,

foster homes, half-way houses, day care centers and homes to assure that these facilities meet established standards for health and safety.

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

Separate reports will be issued on the department's Revolving Loan Fund, Emergency Revolving Fund, Interstate Collection Incentive Fund, Support Enforcement Incentive Fund, Special Deposit Fund, and Social Welfare Federal Fund for the year ended June 30, 1979.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the State Department of Social Services' General Fund and General Fixed Assets Account Group as of June 30, 1979 and the related 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 eligibility 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 paid was proper or if the payee was a legal beneficiary. This restriction applies to \$2.2 billion out of \$2.5 billion in General Fund public assistance program expenditures. Accordingly, we did not examine adequate evidential matter for approximately 85 percent of the department's total public assistance program expenditures.

In addition, as explained in Note 5, of the Notes to the Financial Statements, the department reported only a portion of the cost of equipment on the June 30, 1979 financial statements and did not report the value of equipment acquired as a result of the department organization on July 1, 1978. This equipment has not been identified and, accordingly, has not been assigned a value. The department's records do not permit us to apply adequate auditing procedures regarding this equipment. Since we were unable to examine adequate evidential matter to substantiate the amount of program 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. JOSS
Assistant Auditor General

Date: October 21, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Ross Luna
Lisa Kenyon
Robyn Graves
M. Osman Sanneh

STATE DEPARTMENT OF SOCIAL SERVICES

BALANCE SHEET
GOVERNMENTAL FUND TYPE AND
ACCOUNT GROUP

JUNE 30, 1979

<u>ASSETS</u>	<u>Governmental Fund Type General Fund</u>	<u>Account Group General Fixed Assets</u>
Cash	\$ 436,045	\$ --
Receivables (net of allowance for deferred receivables, \$112,795) (Note 2)	20,610,488	--
Due from other governments (Note 3)	32,564,092	--
Due from other funds (Note 4)	36,788,599	--
Expense advances to employees	212,838	--
Equipment (Note 5)	--	1,399,662
Construction work in progress	--	502,034
Total Assets	<u>\$ 90,612,062</u>	<u>\$1,901,696</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable (Note 6)	\$153,905,026	\$ --
Due to other funds	3,129,164	--
Other	581	--
Total Liabilities	<u>157,034,771</u>	<u>--</u>
Fund Equity:		
Investment in general fixed assets	--	1,399,662
Designated for construction	--	502,034
Clearing account with the State Controller	<u>(66,422,709)</u>	<u>--</u>
Total Fund Equity	<u>(66,422,709)</u>	<u>1,901,696</u>
Total Liabilities and Fund Equity	<u>\$ 90,612,062</u>	<u>\$1,901,696</u>

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

STATE DEPARTMENT OF SOCIAL SERVICES

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

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:		
Miscellaneous revenues	\$	<u>9,782</u>
Expenditures:		
Public assistance programs		2,638,995,399
Personal services		58,679,274
Operating expenses and equipment		30,235,596
Reimbursements		<u>(541,783,040)</u>
Total Expenditures		<u>2,186,127,229</u>
Excess of Revenues over (under) Expenditures		<u>(2,186,117,447)</u>
Other Financing Sources:		
Support and program appropriations (Note 7)		2,181,185,283
Miscellaneous adjustments		6,678,072
Operating transfers in		1,336,428
Reverted appropriations		<u>990,615</u>
Total Other Financing Sources		2,190,190,398
Excess of Revenues over Expenditures and Other Uses		4,072,951
Fund Equity - July 1	\$	<u>(70,495,660)</u>
Fund Equity - June 30	\$	<u><u>(66,422,709)</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State Department of Social Services' General Fund and the General Fixed Assets Account Group reflect financial position and the results of operations. Except as described in Note 6, 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 Governmental Fund Type and an Account Group. The State Department of Social Services accounts for only its portion of the fund type category. The State Controller maintains 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 Governmental Fund Type for the State Department of Social Services is the General Fund, which includes all financial revenues not accounted for in another fund. This fund is maintained on a 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, these 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 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 \$7,726,397.

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 5, assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance.

2. RECEIVABLES

The General Fund is the accounting entity 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, \$20.5 million of the receivables balance reflected the amount due from other departmental funds.

3. DUE FROM OTHER GOVERNMENTS

The State's share of certain program and administrative expenditures is advanced to the counties and the Federal Government on either a monthly or quarterly basis. At June 30, 1979 the amount of these advances exceeded the estimated amount of fiscal year 1978-79 state obligations by \$32.6 million. This amount consists of \$24.8 million due from local governments and \$7.8 million due from the Federal Government.

4. DUE FROM OTHER FUNDS

Departmental programs are financed from General Fund appropriations and from federal grants. The federal share of departmental costs not transferred from the Social Welfare Federal Fund amounted to \$36.8 million as of June 30, 1979.

5. EQUIPMENT

The value of equipment items recorded by the department is \$1.4 million. Several equipment items acquired from other health and welfare agencies as a result of the department's organization in July 1978 have not been recorded. 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.

6. ACCOUNTS PAYABLE

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 as of that date. Reporting encumbrances as accounts payable for the fiscal year covered by this report is a departure from generally accepted accounting principles. In accordance with these principles, encumbrances should be separated from accounts payable. These financial statements, which have been prepared to conform with state requirements, do not reflect this separation.

7. SUPPORT AND PROGRAM APPROPRIATIONS

The legislative Budget Act annually appropriates monies to the State Department of Social Services to be used for support and program purposes. During fiscal year 1978-79, the State Controller transferred to the department nearly \$2.2 billion for these purposes.

8. CONTINGENT LIABILITIES

There is a contingent liability of \$160,492,565 against the General Fund for a possible adjustment in federal expenditures for various social welfare programs.

The department is also a defendant in several lawsuits involving social welfare 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 SOCIAL 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 - Favorable Unfavorable)</u>
Expenditures:			
Public assistance programs	\$2,708,927,084	\$2,638,995,399	\$69,931,685
Personal services	59,330,990	58,679,274	651,716
Operating expenses and equipment	30,795,126	30,235,596	559,530
Reimbursements	<u>(544,935,541)</u>	<u>(541,783,040)</u>	<u>(3,152,501)</u>
Total Expenditures	<u>\$2,254,117,659</u>	<u>\$2,186,127,229</u>	<u>\$67,990,430</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the department'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 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